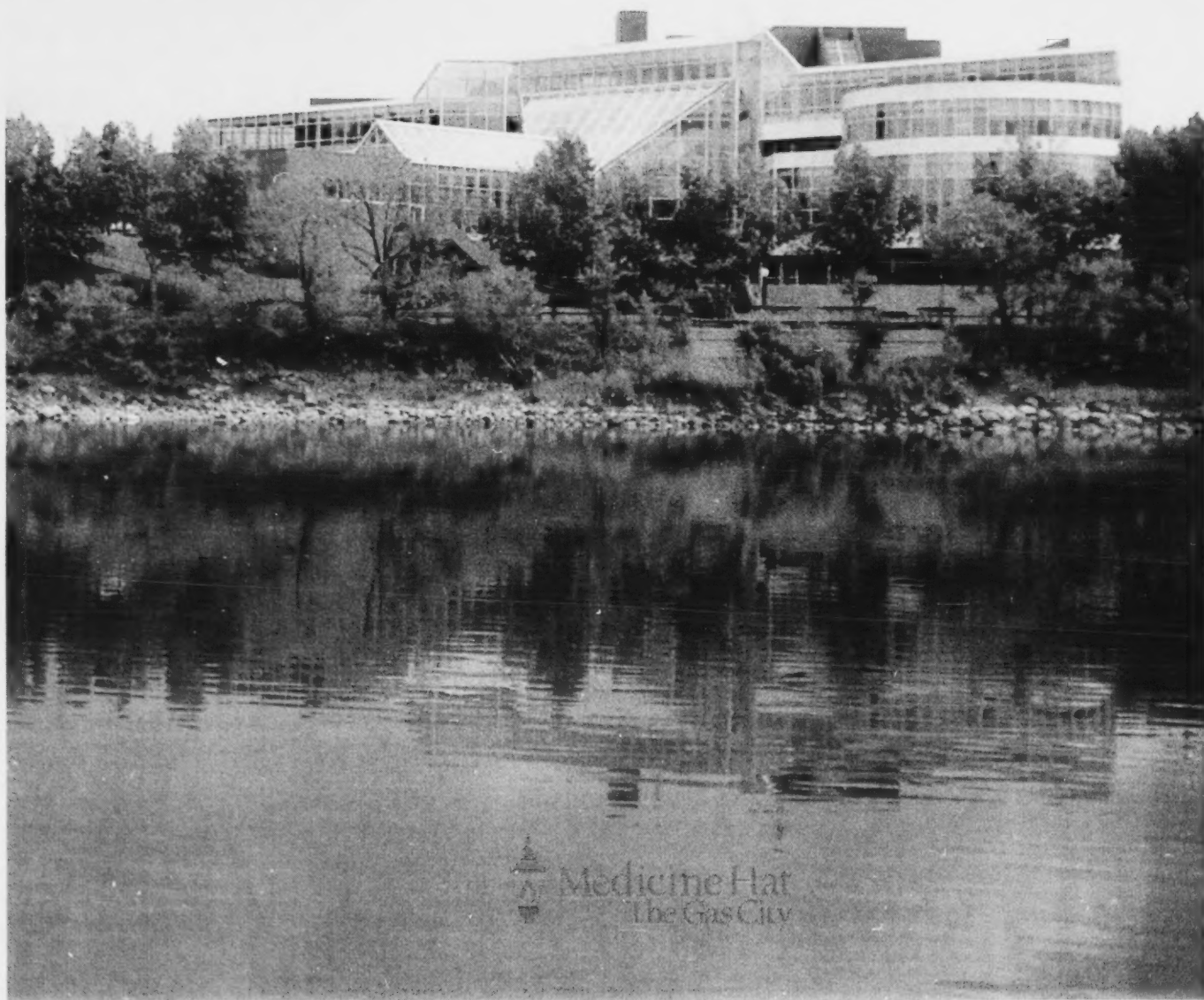


2005^{CITY OF MEDICINE HAT} ANNUAL REPORT

OUR VISION IS TO BE A COMMUNITY OF CHOICE

DECEMBER 31 | 2005
MEDICINE HAT | ALBERTA | CANADA

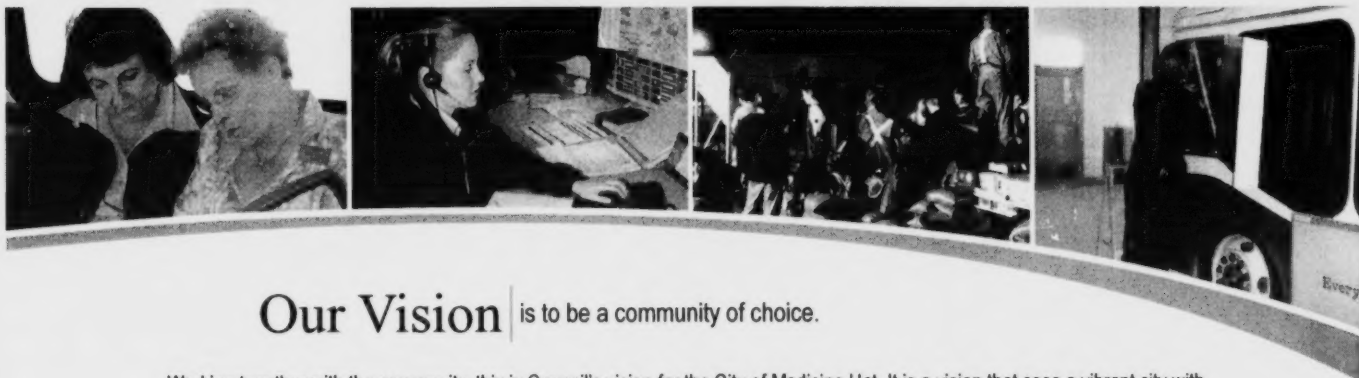


Medicine Hat
The Gas City



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Our Vision | is to be a community of choice.

Working together with the community, this is Council's vision for the City of Medicine Hat. It is a vision that sees a vibrant city with residents, businesses and visitors seeking to make Medicine Hat their "community of choice."

Our Mission | is to exceed expectations in the value of our services.

In pursuit of our vision, the City of Medicine Hat is committed to a mission of striving to exceed expectations of our residents, businesses and visitors.

We will achieve this by:

- Providing strong and effective leadership.
- Working together with a unified purpose.

Our Values | We are committed to the following core values, which we believe enable us to achieve our vision.

- Innovation, creativity and diversity
- Openness, debate and participation
- Performance results
- Being proactive
- Balanced and responsible development
- A long-term perspective
- Well-being of residents and employees
- Principle of self-determination for our community
- Continuous learning and staff development

Our Measures of Success

Stemming from Council's Vision, Mission, Values, Policy Objectives and Priorities, a core set of Corporate Measures of Success based upon a Balanced Scorecard model serve as a clear expectation to individual departments and business units regarding ongoing performance.

Financial:

- Deliver tax-supported operations within approved Business Plan/Budget limits and Service Standards.
- Land and Utilities continuously meet or exceed Business Plan/Budget goals and objectives.

Citizens:

- Improve annual stakeholder inclusiveness, understanding, and satisfaction.
- Focus on residents by delivering on the "2x14 Service Commitment", based on "win-win", with no surprises when changing service levels or on publicly sensitive issues.

Internal Business Processes:

- Annually improve business processes that affect our residents with a focus on customer service.
- Achieve major positive impacts through the redesign of selected processes offering high potential.

Learning and Growth:

- Achieve annual improvements over the 2000 Employee Survey benchmarks – with a target of a 90 per cent satisfaction rating on Statement 10 of the employee survey.
- Grow the talent level and knowledge base of our workforce with an eye to succession.

About Us



who we are

Medicine Hat is a thriving community of more than 56,000 people. Residents continue to benefit from more than 100 years of public ownership of natural gas and electric utilities. The city offers a wealth of amenities and facilities, the lowest tax rates in Canada, the lowest utility rates in Alberta, friendly people, safe streets, and an enviable climate.

The Medicine Hat Advantage - UNIQUE!

Our Community

- We are Canada's sunniest city, receiving more than 2,500 hours of sunshine annually.
- We are a clean community and people feel safe. We have excellent Police, Fire and Ambulance Services.
- We offer superior recreational facilities, more than 90 kilometres of hiking/biking trails and 250 hectares of parks. There are six first-class golf courses, three indoor and four outdoor pools, six indoor ice arenas, indoor and outdoor waterslides, soccer fields, baseball diamonds, tennis courts, skateboard park, Echo Dale Regional Park, and BMX track. If you enjoy ice, water or sun, there's a sport for every season.
- We are active in arts and culture. Medicine Hat is home to the Esplanade, a world-class arts, heritage and performing arts centre.
- We are a city where people want to raise families.

Our People

- We have talented and dedicated people. Companies say the work ethic of Medicine Hatters is one of the key reasons they are here.
- We care. There are more than 650 people who volunteer through our Senior Services to make Medicine Hat a better place.

Our Natural Resources

- We are blessed with natural gas, the South Saskatchewan River, and more sunshine than anywhere else in Canada. Couple that with our industrious people and you get:
 - The lowest utility rates for gas and electric in Alberta.
 - Clean, safe drinking water.
 - A flourishing greenhouse industry.
 - A great climate for outdoor activities.
 - Exploration of alternative energy sources like wind power, solar heating, and a water aquifer to heat and cool homes to save electricity.

Our Location

- We are close to the Rocky Mountains - a recreation area among the best in the world, and Cypress Hills Interprovincial Park - the highest point in Canada between Labrador and the Rocky Mountains.
- We are close to world-class health facilities in Calgary.
- We are close to commercial centres and markets for our products.
- Yet we are far enough away that Medicine Hat is not a bedroom community, so our business and service sector is strong.

Corporate
Governance

MEDICINE HAT CITY HA



mayor's report

Medicine Hat's success comes from its residents. Never was this clearer than in 2005 as we celebrated Alberta's 100th anniversary. Throughout our history, Medicine Hat has been driven by an entrepreneurial spirit. With "all hell for a basement" we have built a dynamic oil and natural gas business that continues to thrive and provide an unmatched quality of life for our community. Medicine Hat is the only North American city that owns and operates gas production, electric generation and distribution utilities. The economic benefits are shared with utility customers and taxpayers, resulting in the lowest utility rates in Alberta and lowest combined taxes in Canada.

A milestone for our city was achieved in 2005 with the opening of the Esplanade Arts and Heritage Centre. Whether you are an art or music lover, a cultural enthusiast, or someone who appreciates the beauty of a stunning facility – the Esplanade is for you. Medicine Hat is proud to bring together visual and performance arts and cultural heritage under one roof. The Esplanade is a place to appreciate and interpret culture, and to celebrate and cherish our community.

Throughout the year we continued to deliver on our promises and take consistent steps towards our vision of the future. Council's focus on our strategic direction, combined with Administration's disciplined focus on delivering our core services is proving effective. We are delivering on our promise of making Medicine Hat "a Community of Choice." Among our major accomplishments were the openings of a third Fire Station to improve the city's fire suppression and prevention, and the South Ridge Recreation and Wellness Centre, a multi-use recreation facility.

Our community relies on natural gas, a non-renewable resource. Gas not only heats our homes and fuels our electric generation, but it is also sold to the market to offset the full cost of property taxes and to subsidize gas and electric utility rates. This is not a sustainable business plan. By "giving away" the gas at unrealistically low rates, our natural gas reserves are depleting. This Council is firm that we must ensure our utilities recover costs by 2008 to stop the erosion of our natural gas equity.

In 2005, we unveiled a four-part plan to ensure Medicine Hat maintains and grows a healthy energy business - a treasured heritage of utility independence:

1. Consider accepting increased risk on small, strategic gas purchases. By taking this action, the City may be able to purchase replacement gas reserves and extend the life of the gas business.
2. Diversify electric generation with alternate forms of energy so there is less reliance on natural gas.
3. Keep the Gas and Electric Distribution costs below similar service providers in Alberta to ensure a continued Medicine Hat Advantage.

4. Value the commodity correctly and send the right price signals so funds are available to either invest in replacement gas or alternate forms of energy and to encourage conservation or the wise use of energy. We are committed to achieving part four of this plan by 2008.

We value the opinions and input of the people we serve. We undertook our first Resident Satisfaction Survey in 2005 to gauge satisfaction with City services. Ninety-four per cent of residents consider Medicine Hat's quality of life to be excellent or good. Nearly 90 per cent of residents gave the City top marks for services. The survey provides useful information to the City as we set and evaluate priorities and make strategic decisions that shape the future of Medicine Hat.

We also undertook two major community engagement processes to seek your input on the feasibility of a new arena and to determine the community's environmental priorities. Council will be addressing both of these issues in 2006.

Looking ahead, I see even greater opportunities for the City of Medicine Hat. More importantly, I see a city that is blessed. Our citizens and our natural resources give us the wealth of energy needed to keep us moving forward. I thank all of you for striving to make Medicine Hat your "community of choice."

Garth Vallely
Mayor Garth Vallely



City Council



(L to R) Back Row: Alderman Harv Speers, Alderman John Hamill, Mayor Garth Vallely, Alderman Graham Kelly, Alderman Bill Cocks. Front Row: Alderman Julie Friesen, Alderman Darren Hirsch, Alderman Robert Dumanowski, Alderman Cathy Smith.

City Council consists of a Mayor and eight Aldermen. Council is responsible for developing and evaluating the policies and programs of the municipality, and delegating the responsibility for carrying out those policies to Administration. The public is encouraged to attend regular Council meetings, which are held on the first and third Mondays of each month at City Hall.



Standing Committees

Corporate Services Committee
Alderman Graham Kelly, Chairman

Development and Infrastructure Committee
Alderman John Hamill, Chairman

Public Services Committee
Alderman Julie Friesen, Chairman

Energy Committee
Alderman Robert Dumanowski, Chairman

Special Committees

Administrative and Legislative Review Committee
Alderman Cathy Smith, Chairman

Board of Commissioners
Chief Administrative Officer Gerry Labas, Chairman

Ad Hoc Arena Feasibility Committee
Alderman Graham Kelly, Chairman

Advisory Boards and Commissions

Urban Environment and Recreation Advisory Board
Municipal Planning Commission
Subdivision and Development Appeal Board
Police Commission
Cultural Development Advisory Board
Social Development Advisory Board
Assessment Review Board
City Centre Development Agency

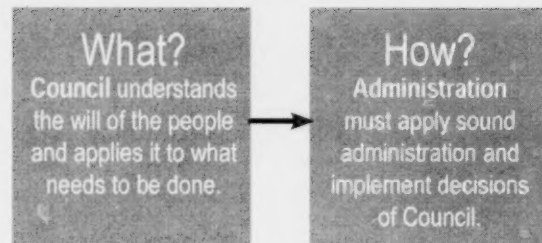
Other Organizations With Council Representations

Medicine Hat Exhibition and Stampede
Medicine Hat Regional Social Housing Agency
Cypress View Foundation
Shortgrass Library System
Tourism Medicine Hat Committee
Medicine Hat Public Library
Medicine Hat Museum and Art Gallery

Strategic Planning

The City of Medicine Hat uses a Systems Thinking approach to strategic planning. The organization focuses on "where we want to go and how we are going to get there." Council devotes more time on developing and evaluating the policies of the municipality (the WHAT), and where appropriate, less time on allocating resources and business processes. By stating "what" we want to be, Council provides Administration with a framework to implement the decisions of Council (the HOW).

The City of Medicine Hat Strategic Plan supports the City's vision, mission, and direction by outlining corporate priorities, strategies, goals, and measures of success over the planning period. The Strategic Plan guides the individual business units in the organization to develop strategies, goals, and measures of success that are consistent with the corporate direction. The Strategic Plan also helps the organization in the preparation of the annual budget. The Strategic Plan is monitored and updated on a yearly basis by Council and Senior Management. It is expected that Business Plans and department budgets will be updated every three years to form the basis for the City budget. Throughout the year, quarterly reports are produced that report on the progress of this planning cycle. In addition, the City produces an Annual Report which reports on the outcomes of the planning cycle.



Governance Model

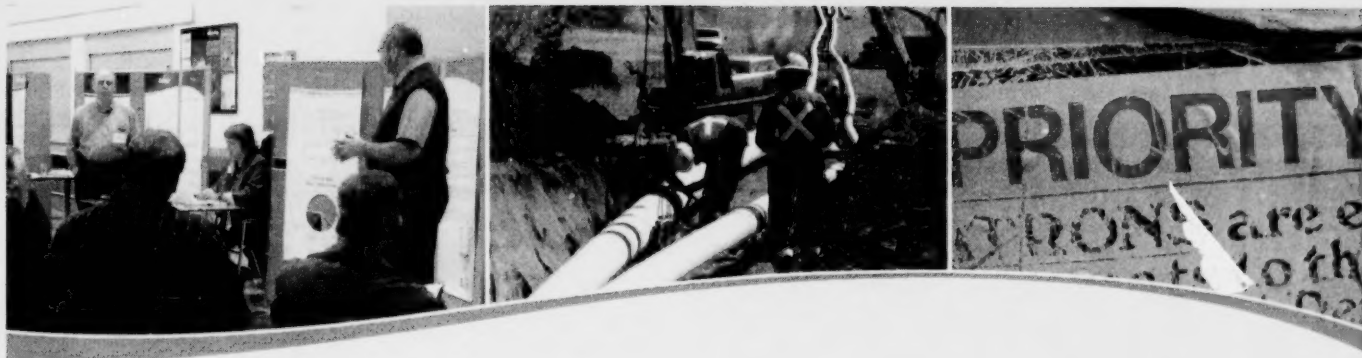


Source: Gerry Labas



Our strategic planning process ensures that:

- Strategies and goals are aligned with community and Council needs;
- An accountability framework exists to monitor and report to the community on progress in achieving the strategies and goals of the Strategic Plan;
- Clear linkages exist from the Strategic Plan to all other Business Plans, budgets, and policies, and day-to-day operations;
- Roles and responsibilities are clear and understood;
- A culture of learning and improvements is embraced.



Council's Policy Objectives and Priorities 2005-2008

Fiscal Responsibility - *Maintaining a Strong Financial Position*

Council strives to ensure that services provided by the City of Medicine Hat are affordable and well-managed. Strategies in this regard work toward attractive taxation, utility rates and user fees, balanced with the need to maintain a growing infrastructure and ongoing service quality.

Sustainable Utilities - *Managing the Investment*

Medicine Hat's enviable cost of living continues to be supported through the ownership and careful management of its stand-alone enterprises. These include Gas, Electric, Water, Sewer, and Solid Waste Utilities, plus the Land and Properties department. By pursuing strategies that promote sustainable growth, ensuring appropriate infrastructure maintenance and replacement, and seeking out alternative revenue options, Council can continue to offer attractive utility rates and use sales proceeds to generate annual dividends to offset the requirements for property taxes.

Alternative Energy: explore alternative energy forms at full cost recovery.

Sound Infrastructure - *Planning for Tomorrow*

Sound infrastructure not only supports the quality of life for the residents of Medicine Hat, but is a significant contributor to the economy as well. Through wise expenditure of public funds on maintenance and replacement initiatives, as well as strategic investment in new infrastructure, City Council strives to provide a strong base from which the community can thrive and grow. An appropriate balance among transportation systems, pedestrian corridors, buildings, facilities, and amenities is continually sought.

Smart Growth: consideration for sustainability in all growth initiatives.

Economic Development - *Balancing Our Approach to Economic Growth*

Council continues a strong commitment to economic vitality. As municipal government creates the business environment and the infrastructure necessary for prosperity, Council's strategies centre around eliminating barriers and creating a balanced approach for economic opportunities and sustained growth. This approach includes offering the highest quality environment, services, and amenities necessary to attract new business investment, as well as supporting the retention and expansion of existing local businesses.



Communications and Community Relations - *Dedicating Our Efforts to a Progressive Council and an Informed Community*

Medicine Hat residents are interested in the actions taken by their municipal government to serve the community. They also expect to be informed on emerging issues and critical Council decisions. Regular communication is required and access to relevant information is necessary. City Council recognizes the significant roles it plays in keeping the community informed, and wants to ensure that it performs its communications role to a high standard. In support of Council, the Administration is required to provide accurate information to the community and to be accessible in answering public inquiries and concerns. A high level of customer service is expected in the areas selected by Council.

Environmental Stewardship - *Focusing Our Knowledge and Awareness*

The city's natural environment represents a substantial asset that few prairie cities enjoy. The abundance of trees, clean air, the city's scenic river valley and its sparkling waters serve as a natural oasis in the prairie landscape. Council recognizes the key strategic, economic, and social value of a healthy environment. Maintaining the quality of our natural environment represents a community obligation. Council wants its municipal government to be a steward and a leader of responsible environmental decisions and actions in support of this obligation. Collectively, the Administration holds a broad understanding of environmental issues. However, to be a more effective resource to the community, Administration needs to be more focused in its approach to environmental management. Furthermore, Council needs to be more aware of environmental concerns in order to provide leadership.

Water Strategy: upstream quality and City of Medicine Hat quantity intake.

Environmental Focus: establish community targets / strategy.

Waste: identify waste diversion alternatives.

Community Development - *Attending to the Well-being of Our Residents*

Council is dedicated to a balanced approach for developing and enhancing the overall well-being of our community. It is Council's desire to ensure that residents of this community can continue to feel safe and have their property protected, enjoy a clean environment and attractive open spaces, participate in a diverse blend of cultural, recreational, and leisure activities, avail themselves of organized and accessible modes of transportation, and find appropriate local social support mechanisms when circumstances warrant.

Quality of Life Indicators: for measuring progress toward our Vision.

Organizational Strength - *Staff are the Foundation of the Enterprise*

The City of Medicine Hat is proud of its diverse and dedicated workforce. Council understands that excellent service to the community starts with skilled and motivated staff. The City is committed to helping employees achieve their full potential through an open sharing of information and by supporting a variety of personal development initiatives. Just as the City desires to be a "community of choice," it also strives to be an "employer of choice."

cao's report

The 2005 Annual Report fulfills the City's commitment to providing open and transparent reporting to residents of Medicine Hat. The credit for the success identified in this report goes to the knowledgeable and dedicated staff who ensure we achieve our Mission "to exceed expectations in the value of our services".

As part of our governance structure, progress at the City of Medicine Hat is measured under four key categories:

Financial – City of Medicine Hat assets grew to \$1.2 billion and a net municipal position of \$949.0 million. Excess revenues over expenditures were \$51.1 million on consolidated operating revenues of \$330 million; 71 per cent was derived from Electric, Gas, and Land and Properties development.

In 2005, capital investment was \$101.4 million in natural gas assets, the Esplanade, roads, sidewalks and storm sewers in new subdivisions. Tax-supported debt per capita decreased to \$505 and utilities supported debt per capita decreased to \$2,256. Our cash investment portfolio earned 4.06 per cent exceeding the benchmark of 3.38 per cent by 20 per cent.

Residents and Customers – In the City's Resident Satisfaction Survey, 88 per cent of respondents indicated they were somewhat satisfied or very satisfied with the services and programs provided by the City of Medicine Hat. Eighty-seven per cent of residents felt employees are knowledgeable and courteous and responded quickly to requests.

The City contributed property valued at \$500,000 to the Medicine Hat Community Housing Association for affordable housing. Protective Services hired new employees or trained existing employees to ensure residents will continue to receive excellent fire protection. The Medicine Hat Police Service emphasized safety in the community with 43 per cent more charges for drug offences and helped reduce traffic collisions by 35 per cent over 2004.

Internal Business Processes – City Council approved a three-year budget which will enable the Administration to plan more effectively and save hundreds of hours in budgeting time. Commissioners' offices are utilizing a tracking system to ensure residents' requests are addressed within our "2 x 14 Service Commitment."

Progress was achieved on Council's priorities including research into alternative energy (aquifer, wind, solar) and first steps toward a comprehensive water management strategy.

Organizational Learning and Growth – Senior Management signed a

commitment to lead the organization on a constructive culture journey. Four behaviours are targeted: supporting each other, building healthy relationships, achieving excellent results and fulfilling our potential.

The City continues to focus on training and development and on making the City of Medicine Hat an employer of choice. In the 2005 employee survey, over 80 per cent of staff indicated the City of Medicine Hat is a good place to work.

Residents should be aware that each year the City of Medicine Hat continues to strengthen its balance sheet and earnings. Pages 74 and 75 of this report provide a financial comparison for the years 1999 through 2005.

I would like to take this opportunity to thank City Council for bringing clarity to our Vision, Mission and Priorities and to the employees and volunteers who continue to make Medicine Hat a "community of choice".



Gerry Labas, Chief
Administration Officer, MBA



Executive Team

Gerry Labas, Chief Administrative Officer and Commissioner of the Energy Division

Ray Gilmour, Commissioner of Corporate Services

Robert (Bob) E. Wanner, Commissioner of Public Services

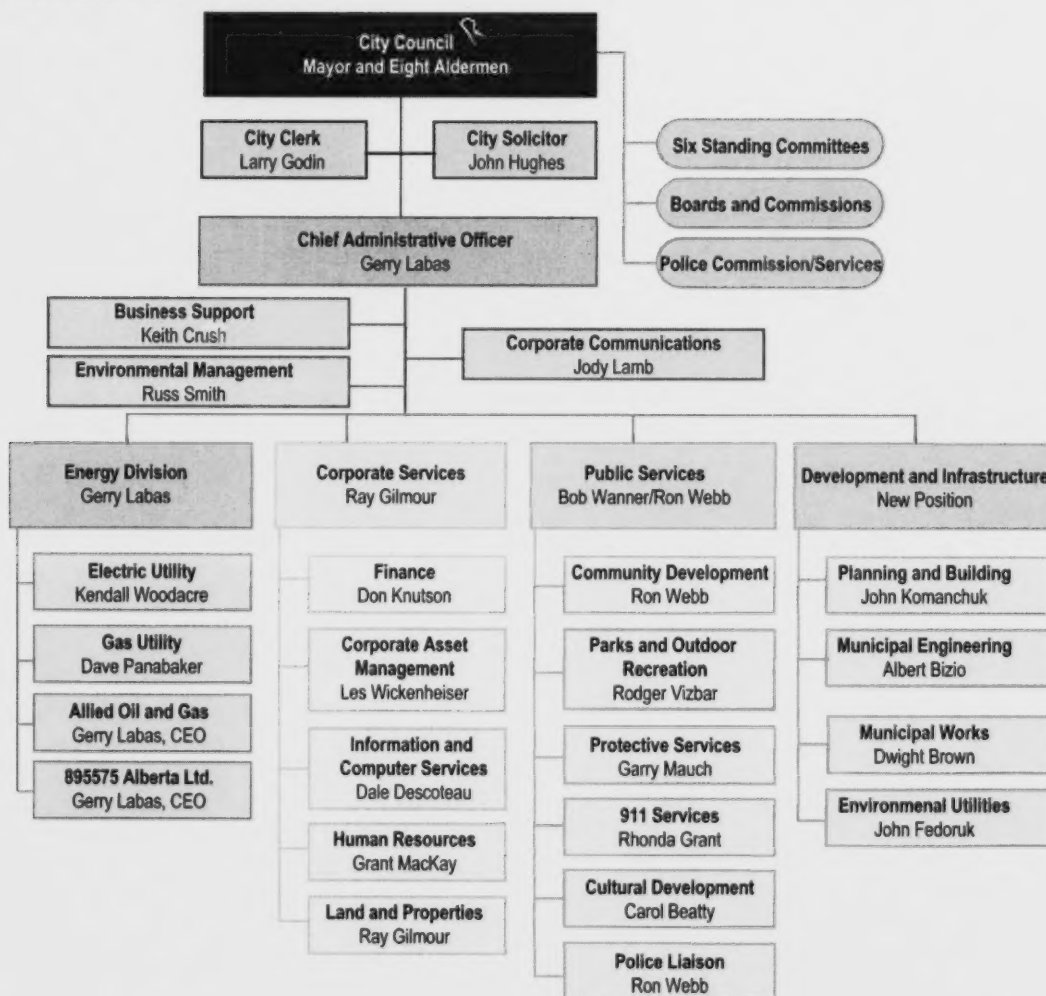
Ron Webb, Acting Commissioner of Public Services

Larry Godin, City Clerk

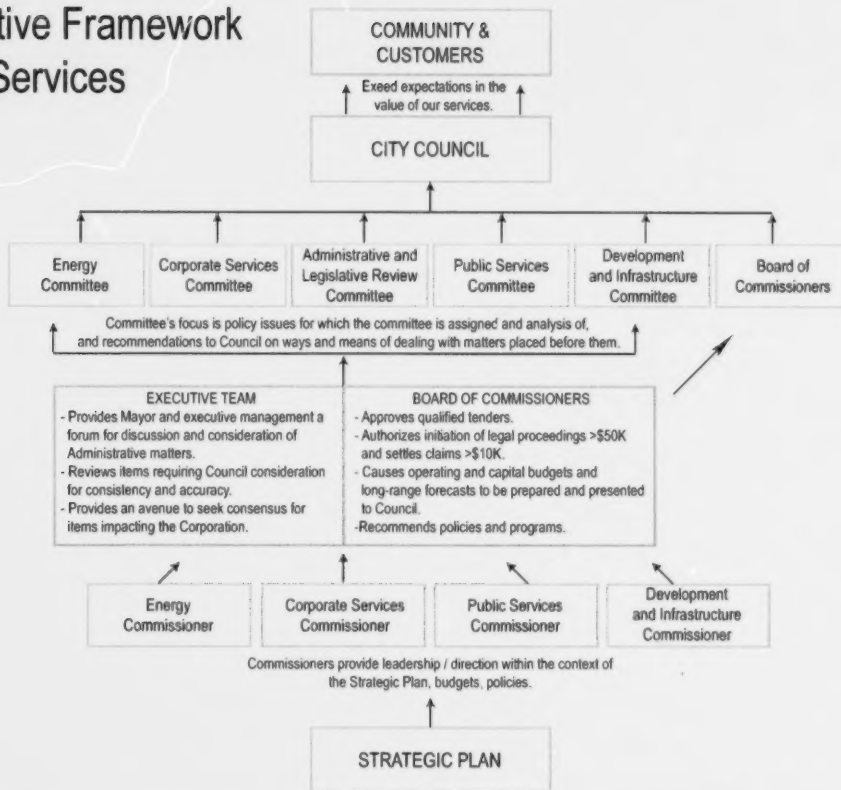
John Hughes, City Solicitor

Executive Team meetings provide the Mayor and senior management with a forum to discuss strategy, to consider Administrative matters, to review items requiring Council approval and to seek consensus on issues impacting the Corporation.

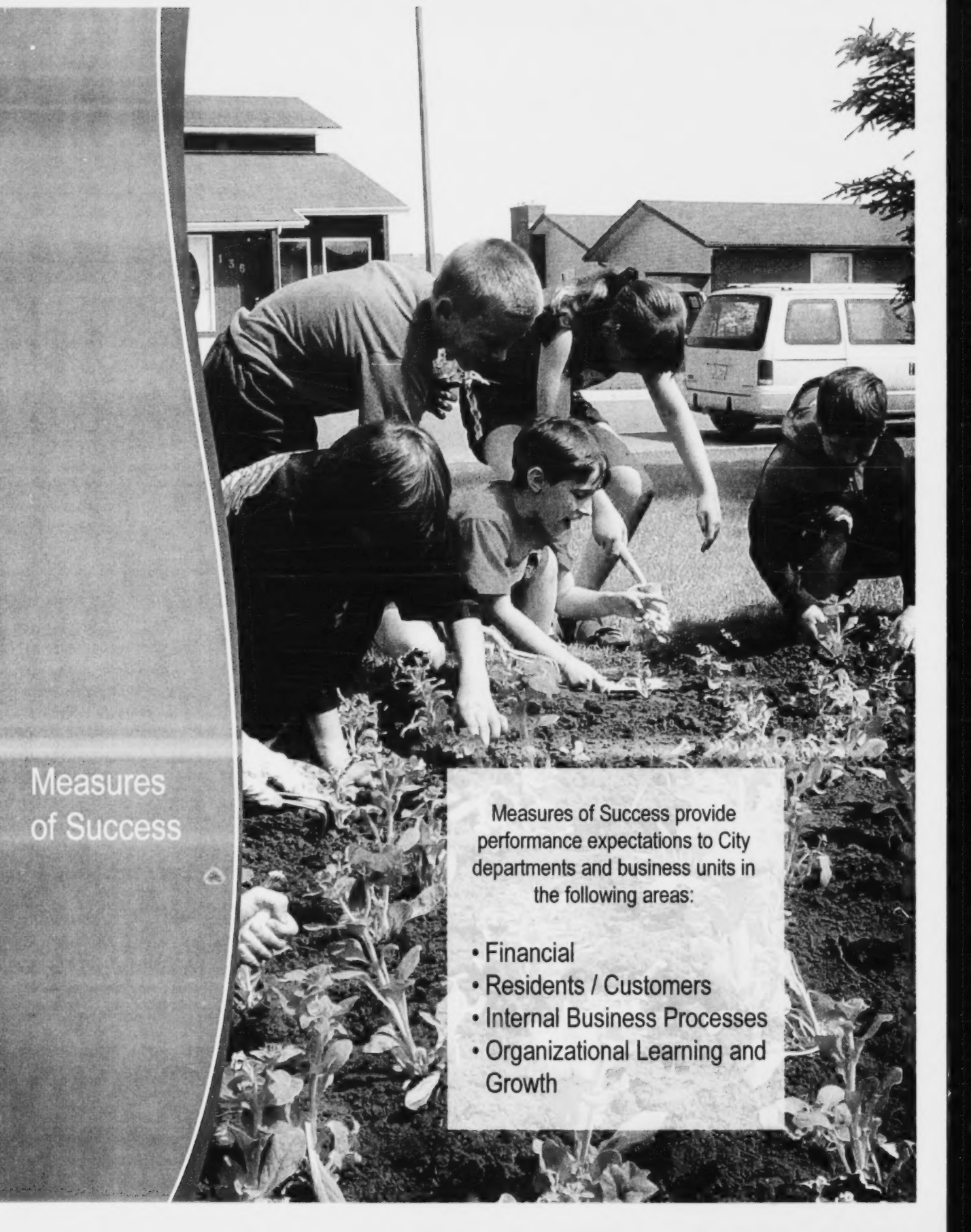
Organizational Structure



Administrative Framework to Deliver Services



Senior Leadership Group: Standing left to right: Rodger Vizbar, Parks and Outdoor Recreation General Manager; Albert Bizio, Municipal Engineering General Manager; Ron Webb, Community Development General Manager and Acting Commissioner of Public Services; Dwight Brown, Municipal Works General Manager; Don Knutson, Finance General Manager; Gerry Labas, Chief Administrative Officer and Energy Division Commissioner; Garry Mauch, Fire Chief; Kendall Woodacre, Electric Utility General Manager; Russ Smith, Environmental Management Manager; Dave Panabaker, Gas Utility General Manager; Grant MacKay, Human Resources General Manager; Ray Gilmour, Commissioner of Corporate Services; John Komanchuk, Planning and Building General Manager; John Hughes, City Solicitor. Sitting left to right: Larry Godin, City Clerk; Jody Lamb, Corporate Communications Manager; Bob Wanner, Public Services Commissioner (to November 2005); Les Wickenheiser, Corporate Asset Management General Manager; Ronda Grant, 9-1-1 Communications Director; Normand Boucher, Police Chief; Keith Crush, Business Support Officer; John Fedoruk, Environmental Utilities General Manager.



Measures of Success

Measures of Success provide performance expectations to City departments and business units in the following areas:

- Financial
- Residents / Customers
- Internal Business Processes
- Organizational Learning and Growth

Financial

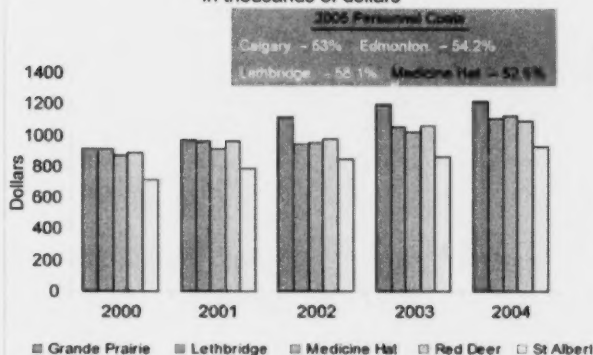
Affordable, Well-Managed Services

Highlights

Consolidated Statement of Financial Position in thousands of dollars

	2005	2004	2003
ASSETS			
Total Financial Assets	300,112	238,449	182,445
Total Physical Assets	912,960	876,593	828,965
TOTAL ASSETS	1,213,072	1,115,042	1,011,410
LIABILITIES			
TOTAL	264,028	254,302	235,895
EQUITY			
TOTAL	949,044	860,740	775,515
TOTAL LIABILITIES AND EQUITY	1,213,072	1,115,042	1,011,410

Comparison Operating Costs Per Capita in thousands of dollars



Municipal Services Operations Budget Report in thousands of dollars

	NET ACTUAL	POSITIVE VARIANCE
General Government	\$2,086	\$310
Corporate Services	\$4,154	\$661
Public Services	\$25,734	\$263
Development & Infrastructure	\$7,119	\$1,075
Police Services	\$10,215	\$397

Our Seven Utility Business Units in thousands of dollars

	Net Income (Loss)
Gas Production*	\$107,372
Gas Distribution**	\$(13,991)
Electric Generation	\$4,879
Electric Distribution***	\$(8,382)
Water Utility	\$861
Sewer Utility	\$437
Solid Waste Utility	\$290

* Before Bad Debt Forgiveness to Gas Distribution and Electric Distribution

** Before Forgiveness from Gas Production (\$15,875)

*** Before Forgiveness from Gas Production (\$10,282)

2005 Goals

What we said we were going to do

All Departments

- Services are delivered within approved budgets. This supports the "fiscal responsibility" priority of Council.

2005 Results

What we did

- Services were delivered within approved budgets.

2006 Goals

What we plan to do

- Services are delivered within approved budgets.
- Financial support from the Solicitor General of Alberta, CISA and other Police Services will complement the allocation of funds within the Police Service's existing budget. (Police Service)

9-1-1

- Continue exploration and implementation of increased revenue / enterprise opportunities.

- Negotiations were concluded to provide Ambulance dispatch service for the entire Palliser Health Region (PHR). Approval of contract is complete.

- Successful transition to provide the entire Palliser Health Region with ambulance dispatch service.

2005 Goals What we said we were going to do	2005 Results What we did	2006 Goals What we plan to do
City Clerk • Reduce costs / increase revenues through new partnerships / approaches.	• Continued to process Palliser Health Region mail solicitations.	• No unusual or special expenses are projected as no census or election is scheduled. • Review of revenue sources e.g. souvenirs, documents to be undertaken.
City Solicitor • Average cost of internal services remains cost effective in comparison to alternative means of service delivery.	• Benchmarking indicates internal services remain cost effective.	• Average cost of internal legal services remains cost effective in comparison to alternative means of service delivery
Community Development • Maintain aging infrastructure	• Recreation Facility Plan update deferred to 2006-2008 Budget. • 2004 Arena and Aquatic usage statistics submitted. • Capital Plan combined with Realty Asset Management Plan (RAMP) completed April 2005. • Veiner Centre Repairs and Maintenance Plan complete. Reopened September 6, 2005. • Pools start up/maintenance managed by Community Development. (Completed) • Pool Heating Ventilation Air Conditioning (HVAC) (Crestwood Recreation Centre) and tile repairs (Family Leisure Centre). (Completed)	• Deliver services within the revenue and expenditure budgets: - Meet users' requirements. - Maintaining department infrastructure. • Measurements: - Revenue to cost ratio for recreational facilities is 50 per cent. - Variance projections are within one per cent of budget. - Departmental revenue to cost ratio is greater than 25 per cent.
Corporate Asset Management • Research and explore new opportunities to enhance investment returns.	• Treasury met on a monthly basis to review the portfolio and discuss ways to enhance investment returns. The return on investment in 2005 was 4.06 per cent exceeding the benchmark by 68 basis points or 19.2 per cent.	• Continuous improvement in the management of the City's investments.
Cultural Development • <i>Cultural Development reported within the Community Development department in 2005.</i>		• Deliver services within the revenue and expenditure budgets: - Meet users' requirements and maintaining department infrastructure. - Sustain financial commitments to cultural organizations. • Measurements: - Variance projections are within one per cent. - Revenue to cost ratio is greater than 25 per cent. - Computer replacement schedule is met. - Operating, maintenance and capital schedules are met.
Electric Utility Electric Generation • Achieve average heat rate of 8.5 Gigajoule (GJ) per megawatt hour (MWh) to meet City load. • Achieve Weighted Availability Factor (WAF) greater than or equal to 95 per cent. <i>(Electric Generation Weighted Availability Factor is a measure of the capability or reliability of all generating units to produce.)</i> Electric Distribution • Achieve revenue to cost ratio of one by 2008.	• Power Plant average heat rate at the end of 2005 is 9.30 GJ/MWh. • Power Plant average 2005 year end WAF is 93.4 per cent.	• Achieve and sustain appropriate cost of service for electric commodity that will achieve 95 per cent of the Alberta Market Rate. • Compare revenue to costs and advocate for rates that cover costs but are stable and less than comparable rates in the Alberta market.
Environmental Utilities • Achieve a revenue to cost ratio greater than or equal to one by 2008. • Establish a financial strategy to achieve and maintain a positive working capital balance by Dec. 31, 2008. • Develop a Capital Financing Policy that establishes and manages an appropriate debt to equity ratio for each utility. • Investigate new revenue sources.	• Council's 2004, 2005 and 2006 rate policies supported this goal. • Study deferred to 2006 with Finance Department support. • Study deferred to 2006 with Finance Department support. • Achieved in 2005. (Clay slurry partnership).	• Achieve a revenue to cost ratio of greater than or equal to one by 2008.

2005 Goals What we said we were going to do	2005 Results What we did	2006 Goals What we plan to do
Finance Maintain collection standards for Utilities, Taxes and General Accounts Receivable.	Utility Account write-offs were 0.12 per cent of billed revenue. The average over the past 10 years has been 0.23 per cent with the industry average being between 0.2 per cent and 0.4 per cent. Goal exceeded.	Deliver services within approved revenue and expenditure budgetary limits. Annual productivity improvements are achieved to reach a 75 per cent quartile performance (best in class) when compared against similar operations.
Gas Utility Gas Production - Maintain the dividend, optimize the value of the City's existing investment in petroleum assets, and pursue future investment opportunities consistent with Council's risk/return expectations without eroding the department's equity, based on its 2002 determination. - Diversify the revenue profile to include oil and mid-streaming opportunities. Gas Distribution - Establish rates so that the revenue to cost ratio equals one by 2008. - Be better than other Gas Distribution Utilities on an operating, maintenance, and administration cost / customer basis.	- A number of investment opportunities were pursued without success during the year. - A \$19,585,000 dividend to the General Fund, \$15,875,000 contribution to the Natures Best Reserve, \$15,875,000 Gas Distribution Bad Debt transfer, and \$10,282,000 Electric Bad Debt transfer were made in 2005. - Achieved a 2005 ROE of 25.6 per cent and net income of \$107,373,000, compared to a budgeted ROE of 19.7 per cent and a budgeted net income of \$82,945,700. - The Gas Depletion Reserve finished 2005 9.5 per cent lower, at 256.6 Bcfe of proven reserves, compared to 283.5 Bcfe at the end of 2004. - No opportunities to broaden the Gas Production revenue stream were acted upon in 2005. - Rate increases went into effect Jan. 15, 2006 to continue towards this target. - Consulting firm has been engaged to develop benchmarking costs to compare to other Gas Distribution Utilities. Their preliminary results show that City of Medicine Hat gas pipe service is significantly lower than ATCO and AltaGas.	- Provide a return on future oil and gas investments by the City such that the portfolio of the City's oil and gas investments yields a return on equity of greater than 10 per cent. The portfolio will include primarily shallow gas in Alberta and Saskatchewan, some heavy oil, light oil, and/or deep gas, and no "frontier" production or sour gas. - Achieve 100 per cent cost recovery in 2006 on distribution piping service, plus a return, in order to run a viable operation.
Human Resources - Lead the negotiation of open Collective Agreements consistent with corporate direction. Efficiently implement agreed upon changes through Payroll. - Increase preventative efforts to reduce incidents of workplace injury and property damage thereby reducing the financial and human cost of lost productive time. The overall goal is to meet or exceed the Provincial target of no more than two lost time incidents per 100 full-time equivalents (FTE's) ("Work Safe 2.0").	- Bargaining strategy developed for International Brotherhood of Electrical Workers (IBEW); negotiations to commence in 2006. - External Safety Audit completed in October; City received solid passing grade of 86 per cent (five per cent improvement since 2002). - Preliminary Workers' Compensation Board (WCB) lost time claim performance through year-end is projected to be approximately 50 per cent of previous year. - The WCB premium will decrease in 2006 by 19 per cent, producing a cost savings of \$130,000.	
Information and Computer Services - Investigate new business opportunities that would generate revenue for the City of Medicine Hat. - Demonstrate fiscal responsibility by managing the ICS department within the approved operating and capital budgets.	- ICS hosted a demonstration of the new Permit Tracking system to the City of Lethbridge staff. The goal was to sell the source code for the Permit system. Lethbridge is expected to have a recommendation on its Permitting by the first quarter of 2006. - Discussions have recently taken place with the City of Edmonton regarding the sale of the City's e-Services tax search and tax certificate system. A decision is expected in the first quarter of 2006. - PC auction in November generated \$1,503 in revenue. Over the last three years \$23,780 has been raised from auctions. - Continue to market and sell GIS data. - Continually monitored all expenditures, to ensure they are consistent with the approved 2005 operating and capital budgets.	Reduce operating and support cost by migrating all applications off the Unisys 2200 mainframe platform. This will result in an annual saving of approximately \$125,000.
Land and Properties Sustain a return on investment of 15 per cent or better.	This goal is being achieved through the pricing of individual lots and subdivisions and is averaging between 15 per cent and 30 per cent return.	Return on investment of at least 15 per cent and return on equity of at least 12 per cent. Ensure this is achieved within approved budgets.

2005 Goals

What we said we were going to do

Municipal Works

- Ensure resources are employed in the most effective/efficient manner possible.

- Realign revenues with cost of service for provision of off-street downtown parking, so levels of service are sustainable.

- Complete an Airport Strategic Plan and implement approved recommendations.

Parks and Outdoor Recreation

- Adapt current practices and service guidelines consistent with financial resource appropriations, utilizing the most cost effective and efficient means possible.

Protective Services

- Recommend options for service delivery that defray status quo costs.

2005 Results

What we did

- Department was reorganized and consolidated to better allow staff to focus on customer service, and respond more quickly to tasks and priorities (efficiency has been improved).
- Pavement testing and benchmarks have been realigned for asphalt overlays, with priority to arterial and collector routes, in order that the department manage and reduce the roads maintenance backlog in the future.
- The transfer of the management and marketing for downtown parking was given to the City Centre Development Agency (CCDA) effective April 2004 and renewed for 2005.
- Review of downtown parking service levels is underway for 2005/06.
- The Airport Strategic Plan in partnership with the Economic Development Alliance is underway with a report to be completed for spring 2006.

- Explored, reviewed and implemented the most effective and efficient design, development, operations and maintenance service delivery models. Relied on the services of a contracted Landscape Architect and contracted turf maintenance. Worked with the Canadian Union of Public Employees (CUPE) on operational efficiencies with positive results. Field visits by supervisory staff to confirm quality assurance continued.

- Completed Corporate and Council review.

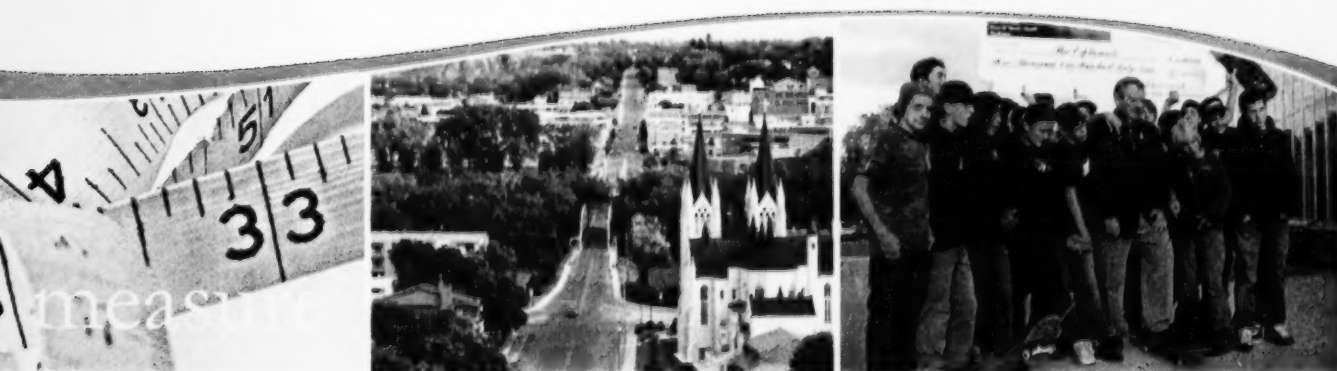
2006 Goals

What we plan to do

- In 2006 resources will be allocated principally in the areas of sidewalks maintenance, lane grading, asphalt repairs, bridge maintenance, and traffic signals, markings and signage, so as to achieve our service levels.
- Through the 2006-08 capital plan the department will undertake increased preventative maintenance inspections of bridge inventory and storm water systems to ensure needs are accurately assessed and a baseline to monitor performance is established.

- Achieve stipulated service levels.
Action plan: Maintain the value and life expectancy of the urban forest to contribute to the City's reputation as an "Oasis on the Prairies".
- Manage the Perpetual Care Trust Fund to sustain Cemetery maintenance into perpetuity.

- Continue to explore revenue generation opportunities.

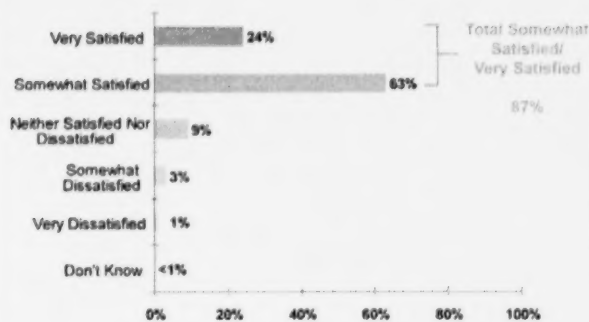


Residents/Customers

Stakeholder Satisfaction Through Quality Service Delivery

Highlights

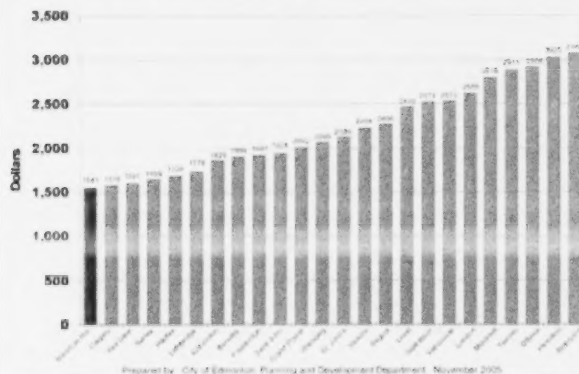
Overall Satisfaction with the Services and Programs Provided by the City of Medicine Hat



Customer Service Satisfaction Levels with City of Medicine Hat Employees

	Strongly disagree	Somewhat disagree	Neither agree nor disagree	Somewhat agree	Strongly agree	Don't know/not stated
was courteous and helpful	7%	4%	5%	30%	54%	--
was knowledgeable about the services they provide	5%	3%	4%	42%	46%	<1%
responded quickly to your requests and concerns	9%	5%	8%	31%	47%	--
exceeded your expectations in the service provided	12%	7%	18%	38%	25%	1%

Medicine Hat has the lowest property taxes in Canada Total Property Tax for a Single Detached House in 2005



Among the lowest utility rates in Canada dollars per month

	Medicine Hat	Lethbridge	Red Deer
Electric	\$57.18	\$67.24	\$61.53
Gas	\$48.10	\$142.38	\$120.27
Water	\$19.65	\$26.01	\$20.06
Sewer	\$18.69	\$21.73	\$19.69
Garbage	\$8.90	\$10.65	\$7.20
TOTAL	\$152.52	\$268.01	\$228.75

(Electric, Water, Sewer and Garbage as per the 2005 City of Edmonton Report, Page 24) (Gas charges for the month of September 2005)

2005 Goals

What we said we were going to do

All Departments

- Deliver customer service within the context of the City of Medicine Hat's "Vision, Mission, and Values".

9-1-1

- Ensure high customer satisfaction (stakeholders and residents).

City Clerk

- Better acquaint residents with current weekly key initiatives underway within the City of Medicine Hat.

2005 Results

What we did

- Services delivered within the context of the City of Medicine Hat's "Vision, Mission, and Values".

- Quality assurance standards are being met for all agencies: Fire, Police and Ambulance.
- Discussions are in progress with rural partners to conduct training sessions with 9-1-1 staff. Map training sessions for Cypress County and County of 40 Mile will be booked following renovations to the centre.

- Continue to respond effectively and efficiently and expand communications with Corporate Communications Manager regarding emergencies.

2006 Goals

What we plan to do

- Deliver customer service within the context of the City of Medicine Hat's "Vision, Mission, and Values".

- Continue to offer excellent, efficient and quality service.
- Prepare for 2007 General Election and consider options to increase voter turnout.

2005 Goals

What we said we were going to do

City Solicitor

- Prioritizing of work assignments will focus on external customer impacts.

Community Development

- Maintain community service and program levels.
- Maximize opportunities in providing information and seeking public input on Community Development programs and services.

Recreation and Leisure Services

- Construct and open the South Ridge Recreation and Wellness Centre.
- Develop a Crestwood Recreation and Wellness Plan.
- Arena Feasibility Study.

Transit

- Maintain Transit Services.

Corporate Communications

- Increase citizen awareness, knowledge, and understanding of City services, projects, and initiatives. Tell our story.
- Citizen participation in City processes helps increase the public's awareness of, and confidence in, municipal governance.

Cultural Development

- Construct and open the Esplanade.

2005 Results

What we did

- Work prioritizing accommodates customer impacts.

- Program evaluation reports on all contracts. (Completed)
- Community Inclusion Coordinator position recruited. (Completed)
- Activity plan reviewed/status reports. (Completed)
- Youth Issues Funding Proposal submitted to Council. (Completed)
- Services to families/youth fund review. (Completed) (Review Budget 2006-2008)
- Introduction of Bus Buddy and Splash and Ride (Echo Dale) programs. (Completed – Report)
- Community Relations Plan (Deferred 2006-2008)
- Maintaining Facility Booking/Program Registration at three sites (introduced for Esplanade). E-Registration introduced for Aquatic Programs. (Completed)
- Meeting 2X14 public inquiry response. (Ongoing)
- Arena Feasibility, Public Art Policy, Youth Issues, Esplanade Events, and Senior Services planning public consultations. (Completed)

- Official Opening January 2005. (Completed)
- Management Board Operating Plan Review (Completed)
- Marketing Plan for community user groups. (Completed)
- Consultation complete by December 2005. (Deferred June 2006)
- Joint Use Agreement review in progress. (September 2006)
- Recreation Plan Draft completed. (Completed)
- Consultant contract awarded. (Completed)
- Public/stakeholder consultation initiated. (Completed)
- Report finalized November 2005. (Completed)

- Transit Study Terms of Reference approved. (Completed)
- Consultant contract awarded (July 2005). (Completed)
- Capital replacement plan approved (2005). (Completed)
- Supervisors recruited/new organizational structure implemented. (Completed)
- Contractor commenced review / interview plan. (Complete April 2006)

- Developed and produced materials for the Energy "story".
- Began work on updating and redesigning the City's website and Intranet.
- Resident Satisfaction Survey indicated 87 per cent of residents feel staff are knowledgeable about the services provided.
- Provided advice and assistance to Environmental Management for the environmental priorities community consultation process.

- Staffing recruited with additional support for opening. (Completed)
- Technology and Furniture/Equipment Plan complete. (Completed)
- Ticketing system awarded. (Completed)
- Planned opening October 2005. (Completed)
- Gala events booked/planned. (Completed)
- Final construction progress report. (April 2006)

2006 Goals

What we plan to do

- Prioritizing of major bylaw drafting projects and adherence to legislative action plan.

- Evaluation, planning and exploring alternative service delivery methods in:
 - Transit Long Range Study, Crestwood Recreation Centre Strategic Plan, Senior Services Five-Year Plan, and Recreation Development Plan.
 - Introduction of Quality of Life Indicators that are used for strategic, financial and business planning.
- Measurements:
 - Resident, community organization and government contacts increase by 10 per cent.
 - 90 per cent of users rate the services as good.
 - Quantifiable measures are developed and calculated each year to rate quality of life.
 - 80 per cent awareness of programs and services.
 - All contracted agencies conduct annual program services and service evaluations.

- Achieve a revenue to cost ratio of greater than or equal to 50 per cent by 2008.

- Increase citizen awareness, knowledge, and understanding of City services, projects, and initiatives.
- No surprises for customers when service changes are made and no surprises to Council on publicly sensitive issues.
- Departments are actively using the City's Engagement toolkit for initiatives requiring citizen consultation, engagement, and input.

- Develop long range plans for delivery of cultural services/programs:
 - Cultural Master Plan.
 - Heritage Policy.
- Measurements:
 - Cultural Master Plan is implemented and forms part of cultural planning.
 - Heritage Policy establishes policies and plans for recognition of historical buildings.
 - 90 per cent of users rate services as satisfactory.
 - Communication is rated as good.

2005 Goals What we said we were going to do

2005 Results What we did

2006 Goals What we plan to do

Electric Utility

Electric Generation

- Assist all electric sub-departments in ensuring the generation, purchasing, and delivery of safe reliable electricity and communications services are efficient and delivered at minimum cost.

Electric Distribution

- Reliability Index higher than upper quartile for 2005. (*Distribution Reliability Index is a measure of the percentage of time the system is working*)
- The Index of Reliability exceeded the target level for 11 out of 12 months in 2005. The index was markedly below target in June 2005 due to the major interruption in Ross Glen.

Environmental Management

- Determine community's environmental priorities using a stakeholder engagement process.
- Stakeholder engagement process was delivered in November 2005. Currently finalizing the summary report for City Council.
- Achieve measurable progress with respect to the community's Environmental Stewardship priorities.

Environmental Utilities

- Customers receive safe, quality water in reasonable supply at all times.
- Collect and dispose of customers' waste water in a responsible manner to meet environmental standards at all times.
- Collect, recycle and/or dispose of customers' solid waste in a responsible manner to meet environmental standards at all times.
- Update the Off-site Levy Policy for the Water and Sewer Utilities.
- Undertake a partnership with Parks and Outdoor Recreation Department to develop a demonstration site for water efficient landscaping.
- Ongoing core business for department. Quality and quantity standards met.
- Joint project is underway with Municipal Works Department for road and storm systems. Municipal Engineering Department is team leader.
- Agreement signed with Medicine Hat College for implementation of site in 2006.
- Collect and dispose of customers' waste water and solid waste, and ensure customers receive safe, quality water in reasonable supply at all times.

Finance

- Ongoing improvement in service delivery to customers (internal and external) to ensure that they receive the service required to meet their specific needs.
- Finance Department received the Government Finance Officers Association's Canadian Award for Financial Reporting for 2004.
- Municipal Accounting conducted a needs assessment which determined the level of service requested by internal departments. The result of this survey has shown a requirement for additional staffing which has been included in the 2007 budget.
- Stakeholder consultation was done during the implementation of the Utility Customer Information System and the Central Invoice Upgrade project to ensure customer's needs were addressed.
- Reader's guide to the Management report has been started and will be completed during the first half of 2006.
- Exceed service expectations of our customers through improved product service attributes and customer relations.
- Educate stakeholders regarding understanding and interpretation of financial information.

Gas Utility

Gas Production

- Meet gas quality standards, documented in the sales contracts.
- Conduct its business within environmental, safety and public consultation regulations.
- There were no product quality related shut downs, and no documented complaints from customers.
- There were no major safety-related or environmental incidents in 2005. Significant investments were made in vehicle operator training and water hauling infrastructure.
- There was a significant reduction in preventable vehicle incidents, from 19 in 2004, to 10 in 2005 as the result of increased driver training and introduction of a Driver Reward Program.
- The Gas Utility averaged 3.68 total sick days per employee, vs. the corporate average of 5.72 sick days per employee.
- Explanation for gas rate determinations were completed by the department for residents and industrial groups.
- Conduct its business within environmental, safety, and public consultation regulations. This will result in an incremental cost required to obtain appropriate personnel not currently employed by the Gas Utility.

- Develop and communicate product-pricing options for customers to the degree that it benefits both the City and the customer.

Gas Distribution

- Develop contract flexibility for larger use customers, on a win / win basis.
- Ensure gas customers receive quality service.
- Complete a Cost of Service Study to provide better information during customer rate design and setting.
- Alberta One Call was rolled out which provided better customer service. All inquiries have been acted upon within two days.
- Cost of Service Study and Revenue Requirement is completed. Cross subsidization has been addressed.
- Communicate to all customers, the Gas Distribution strategy on setting gas rates to recover costs each year.

2005 Goals

What we said we were going to do

2005 Results

What we did

2006 Goals

What we plan to do

Human Resources

- Improve the level of awareness, understanding and commitment employees feel to the organization by more effectively sharing information and providing education on matters that personally affect them.
- Develop or update various policies and/or management protocols to assist the corporation and its operating departments to address various people-related issues in a fair, consistent and responsible manner.
- Ensure traditional mechanisms to attract and retain excellent staff are kept competitive and non-traditional means are developed to keep up with changing values in the workplace.

- Organizational Development Initiative as part of corporate efforts to build a highly constructive organizational culture was formally commenced along with various related communications.
- Several initiatives including Substance Use and Testing policy, updated Training and Development Policy and updated Maternity Leave Policy all in the works. To be finalized in 2006.
- The Organizational Leadership Group took a step forward in establishing positive cultural and behavioural expectations by signing a "Declaration of Commitment to a Constructive Culture" document.

- Continue to enhance and provide excellent core services including recruitment, training, labour relations, compensation, disability management, payroll – priorities for enhanced services include employee wellness, organizational succession planning and individual career counselling.
- Continue to consult with departments as a strategic business partner interpreting legislation, providing relevant information and advising on decisions related to people issues across the organization.

Information and Computer Services

- Develop and enhance web pages to provide timely information to City of Medicine Hat residents/customers.
- Develop e-Services applications that provide residents/customers the capability to conduct City business on a 24 hour, seven days per week (24 x 7) basis.

- Transit route maps and off leash areas have been added to the City website.
- Began working with the Corporate Communications Office on a new "customer focused" Corporate Internet in 2005.
- Assisted Esplanade staff with the implementation of a volunteer system and the installation of museum archival software.
- Developed several new e-Services applications that provide residents/businesses with 24 X 7 access to information and services. E-Services applications to date include: e-Tax, e-Assessment, e-Registration, e-Campground and e-DERTS (disaster emergency services tracking system).

- Continue to develop e-Services applications that provide residents/customers the capability to conduct City business on a 24 hour/day 7 days per week (24 X 7).
- Develop a new City Internet website that will provide timely and useful information to City of Medicine Hat residents/customers.

Land and Properties

- 300 residential lots on the open market in various sizes and locations.
- Contribute to the community through participation in economic, planning and social initiatives.

- As of Dec. 31, 2005 there were 110 lots on the open market. In 2004, 283 lots were developed and 259 sold. In 2005, 302 were developed and 281 sold.
- Contribution to the Medicine Hat Community Housing Association by way of land donation in Northlands.

- Having approximately 250 residential lots on the open market in various locations, with various sizes and various price attributes. Supplying commercial and industrial markets with a variety of lot sizes and locations by extending or creating new subdivisions.

Municipal Engineering

- Enhance 43 day Service Agreement Process to provide increased interactive opportunities for developers and consultants to identify the status of individual Service Agreements and submit inputs to the process.

- Progress is now being made on the creation of a department (component of the City's) website.

- Introduce rigour into the Customer Feedback Process.
- Establish formal association with customer groups on an ongoing basis.

Municipal Works

- Identify at least one way to improve customer service/response time annually within budgetary constraints.
- Work with all stakeholders to develop improved municipal infrastructure in the city centre.

- Core competencies were assessed (e.g. we are no longer in the sub-division construction business) with the department now focused entirely on developing and maintaining \$1.15 billion in municipal transportation system (roads, sidewalks, storm system) and airport infrastructure.
- The initiative to reduce and simplify downtown parking signage has been completed. The department continues to monitor and adjust as required.

- Increase the service level within the Downtown such that streets, sidewalks, and street lights are to a high standard that reflects an above average level of maintenance.
Action plan:
- Review current levels of service in 2006, and confirm scope (expectations and benefit), and cost to increase efforts in cleaning and maintaining downtown infrastructure.

Parks and Outdoor Recreation

- Meet user needs through resource management, use of technology and timely service delivery.
- Ensure that responses to public inquiries are dealt with in a timely manner.
- Meet residents expectations with respect to formal Public Open Space.

- Phase One of Internet campground reservation system was developed in consultation with the Information and Computer Services Department.
- More effective use of the automated telephone Parks Information Line.
- Service Requests responded to according to the 2x14 model.
- The Department carried out a variety of informational and consultation forums for capital projects that may have impacted the public.

- Ensure that responses to public inquiries are dealt with in accordance with the "2x14" model in order to achieve the Corporate objective.
- Ensure that public consultation takes place as required with stakeholders, throughout the design and implementation phases of a capital project, so that the public has an opportunity to clearly understand the outcome or project changes.

Planning and Building

- Continuous improvement in customer service and community relations.

- Numerous initiatives to improve customer service have been implemented.
- Turn around time targets are met.

- Continuous improvement in the delivery of our service.

2005 Goals

What we said we were going to do

Police

- Reduce crime and increase crime clearance by adding eight new police officers and realigning staff requirements.
- Minimize crime through criminal investigation and drug enforcement to provide a safe community of choice that would further attract new citizens to our community.
- Improve community satisfaction by providing a high quality Police Service.

Protective Services

- Deliver an improved safety prevention program.
- Establish a capability to respond to chemical/ biological incidents.
- Establish a partnership between the City and Industry for emergency response.

2005 Results

What we did

- The officers have been successfully recruited and placed in Patrols and the Drug Enforcement Unit.
- Charged 43 per cent more cocaine drug offences and reduced traffic collisions by 35 per cent from 2004 to 2005.
- Survey completed and results are being reviewed and will be communicated to stakeholders.

- Completed – Training of operations staff to deliver fire prevention and education programs to each district completed and program underway, thus significantly augmenting Fire Prevention Branch.
- Ongoing - Waiting for Provincial training to be scheduled.
- Progressing well. Visit scheduled to Sherwood Park to assess their municipal/industry partnership.

2006 Goals

What we plan to do

- Ensuring that public presentations on traffic flows, enforcement, construction and restrictions are done routinely through the media to ensure public awareness of our supported goals and programs.
- Information is continuously sought from local residents through media coverage and Crime Stoppers. All seizures and charges on drug related offences will be advertised. Statistics will be supplied.

- Increase Public Fire Safety Education, Fire Prevention/ Inspection and Emergency Planning Services



Internal Business Processes

Improving How We Provide Our Services

Highlights

Three-Year Budgets

- Incorporate long-term perspective.
- Enable Administration to plan more effectively for initiatives that take longer than one year to fully implement.
- Improve staff re-deployment effectiveness.
- Save hundred of hours in budgeting time.

Tracking residents requests using "2x14 Service Commitment" system

- Supports "2x14" customer service standard.
- Within two days the person making the request will receive a confirmation call for clarification and to let them know: (i) we have it, and (ii) the contact person.
- Within 14 days the person will receive a call: (i) either with the answer or (ii) a date when they can expect an answer.
- Commissioners' Offices processed over 100 requests meeting the time commitment in over 96 per cent of the cases.

2005 Goals

What we said we were going to do

9-1-1

- Continually identify and upgrade technology, as industry standards change and improve.

- Standard Operating Procedures manual is completed and maintained by all stakeholders.

2005 Results

What we did

- Technology upgrades have been complete for the back-up Emergency Operations Centre (EOC).
- Continue progress on the Emergency Notification System.
- Continue investigation on Global Positioning Systems (GPS). Police preparing to go live with GPS in early 2006.
- Training complete for Fire, Police and Ambulance personnel on the new digital recording system.
- Continue to work with the Ambulance Service and Paliser Health to develop the EMS sections of the Standard Operating Procedure manual.

2006 Goals

What we plan to do

- Continually identify and upgrade technology, as industry standards change and improve.

2005 Goals
What we said we were going to do

2005 Results
What we did

2006 Goals
What we plan to do

City Clerk

- Investigate the cost / benefit of moving to an electronic Council packet that would eliminate the preparation of 25 Open City Council bi-weekly packets and allow the public to review the packets on the City's website.

- Some review and training is underway.

- Review / revise long established processes and routines.
- Continue for succession planning of 2 / 3 employees.

City Solicitor

- Prioritization of Major Bylaw Drafting Projects.
- Optimal use of external legal resources.
- Optimize allocation of limited legal resources. (Virtually all City activities involve legal considerations to some degree. Challenge is to allocate internal/external resources to those activities where risks are most significant.)

- Continued implementation of Legislative Action Plan.
- Legislative Action Plan involves outside counsel in bylaw drafting projects.
- Preparation of routine debenture and rezoning bylaws transferred to Treasury and Planning Departments.

- Optimize allocation of limited legal resources each year by transferring one function that can appropriately be handled by the operating department

Community Development

- Review usage of and recommend facility management options for Crestwood Recreation Centre, Veiner Centre, and Strathcona Centre.

- Facility Management Option Proposal for Strathcona Centre completed. New Program/Operating Proposal (August 2005). (Completed)
- Family Leisure Centre Fitness Centre update/explore options (July 2005). Plan in principle approved, update December 2005. (In Progress June 2006)
- Quality of Life Indicators project background/analysis commenced. Terms of Reference complete. Project commenced December 2005. (September 2006)

- Review facility/program usage and management.
- Measurements:
 - Facilities are rated as high quality by 80 per cent of the users.
 - Marketing, utilization and revenue targets are established/met annually.
 - Annual utilization reports are developed in all department areas.

Transit

- Transit Maintenance – Tracking/Evaluation.

- Maintenance and repair data review deferred. (Transit Study April 2006)
- Work order system review September 2005. (Completed)
- Transit Fare Review Study. (Completed) (Transit Study)
- Computerized Booking System upgrades to improve service efficiency. (Complete/Ongoing)

Corporate Asset Management

- Implement the initiatives as outlined and approved from the 2005 Realty Asset Management Plan.
- Determine an appropriate and effective funding model for financing Fleet operations.

- List of Projects has been included in the 2006 – 2008 capital budget guidelines. Building services will be working with departments to implement recommendations.

- Determine an appropriate and effective funding model for financing Fleet operations.

Corporate Communications

- Improve multiple channels of communication.

- Employee survey 2005 showed decrease in critical comments from staff about internal communication channels. Communications intends to undertake an internal communications audit in 2006 to determine the scope of improvement needed for the organization.
- Increase in the number of contacts with staff requesting services from Corporate Communications.
- All media releases, public advisories are circulated to all staff and posted on the City's website.

- Improve multiple channels of internal communication.
- Improve Council and employee access to information about City services, activities, and decision making so council members and employees are more effective internal and external communicators.

Cultural Development

- Cultural Development – Cultural Master Plan.

- Public Art Policy approved. (Completed)
- Cultural Policy (2004 Completed).
- Appointment of Arts and Heritage Board. (Completed)
- Heritage Policy. (In Progress)
- Capital and Operating Funding approved for Medalta. Completed agreement being developed. (Completed)
- Saamis Tepee operations transferred. (Completed)

- Review facility usage and management options.
- Measurements:
 - Annual statistical reports show facilities are rated as high quality by 80 per cent of the users.
 - Marketing, utilization and revenue targets are established/met annually.
 - Annual increase in cultural festivals/productions.

2005 Goals

What we said we were going to do

Electric Utility

Electric Generation

- Continuously improve internal business processes to reduce resources (people, capital, and equipment) required to provide existing growing services and/or to improve the service provided to customers.

Electric Distribution

- Continuously improve internal business processes to reduce resources (people, capital, and equipment) required to provide existing growing services and/or to improve the services provided to customers.

Environmental Management

- Development and implementation of a Corporate Environmental Management System.

- Evaluation of the feasibility of various renewable energy alternatives in Medicine Hat.

2005 Results

What we did

- Investigated efficiency considerations for using an Alberta based supplier to do major maintenance of the LM2500 and LM6000 turbines.
- A focus group was established to address efficiencies in plant operations.

- Distribution established a focus group to identify opportunities for process improvements.
- Based on 2005's pilot project, consideration will be given to contracting cable locate services.
- Implementation of a concise communication plan to handle major outages is in progress.

- Existing Environmental Management Policy has been reviewed.
- A departmental gap assessment has been conducted against the existing environmental policy.
- Departments are in the process of completing environmental risk assessments of their operations.
- Several renewable energy alternatives are currently being evaluated (aquifer thermal, wind, solar) with the assistance of Federation of Canadian Municipalities grant funding.

Environmental Utility

- Increase consumer awareness and confidence of potable water quality in Medicine Hat through online (website) information.
- Integrate Computerized Maintenance Management System (CMMS) data for treatment plants and field pump stations by July 1, 2005.
- Review synergies between Environmental Utilities and Municipal Works departments regarding solid waste and storm sewer.

- Part of Utilities website update project.
- Complete. CMMS is part of daily operations.
- Storm water management review complete. Solid Waste synergies review cancelled.

Finance

- Improve various internal business processes to improve efficiency and effectiveness.

- Radical improvements to the budget process – phase 3 implement "capital project ranking" process.

- Meter reading technology will be part of the 2006 – 2008 business plans.
- Municipal Affairs completed a detailed assessment audit of the City's 2004 Assessment and commended the department on its comprehensive income data collection process and progressive communication program.
- Acquisition of hand held computers for the Assessment department has commenced. Server requirements have been determined and security issues are being addressed. Tests have been completed and integration into the department will be during the first half of 2006.
- Capital ranking process has been implemented during the 2006 – 2008 capital budget process.

2006 Goals

What we plan to do

- Continuously improve internal business processes to optimize resources required to provide services for increasing load growth and legislative demands.

- Ensure the use of the continuous improvement cycle to facilitate the effective implementation of the City's Corporate Environmental Management System (EMS) within the City's operating departments.
- Understand the importance of renewable energy in the context of the long- term energy sustainability for the City of Medicine Hat.

- Integrate the new Utility Billing system into Water, Sewer and Solid Waste business processes.

- Venture into new, breakthrough areas of opportunities by supporting and improving new and existing business processes.

- Improve internal procedures related to Purchasing, Accounting, Information and Computer Services, and Human Resources to allow for more effective and efficient acquisition and/or utilization of goods, services and personnel.

- Ensure that capital investment decisions conform to the City's overall oil and gas investment criteria.

Gas Utility

Gas Production

- Improve internal procedures related to purchasing and signing authorities to allow for more effective and efficient acquisition of goods and services.

- Gas Production to explain its needs better and engage other departments in helping solve purchasing problems.

Gas Distribution

- Introduce Alberta One Call locate service methodology into the Gas Utility operating practices.

- The Alberta One Call program was successfully rolled out in January 2005.

2005 Goals What we said we were going to do	2005 Results What we did	2006 Goals What we plan to do
Human Resources - Continually improve various Human Resources processes from the perspectives of both overall efficiency and customer service. - Consider development or purchase of a Human Resources Management Information System (HRMIS) and determine a strategy for moving the current Payroll System to a new hardware platform.	- Ongoing efforts to document and communicate operating protocols to ensure consistency and adherence to collective agreements and legislation. - Review of Disability Management Program (DMP) through the DMP Steering Committee initiated in final quarter. - Needs analysis completed through extensive interview process with user departments and Human Resource staff.	- Select a solution in regards to our Human Resource Information System needs and commence implementation. - Update our Core Competency Model and use as basis for evolved Job Description, Succession Planning, Achievement Planning and other policies / processes that are directly linked to valued organizational competencies and behaviours.
Information and Computer Services - Design and develop new software applications, while also supporting and enhancing existing production applications. - Improve turnaround time for support questions/problems.	- Assisted on the implementation of the new Cogsdale Utility Customer Information System. - Developed a customer database for Municipal Works, which provides a standardized electronic inventory of all city traffic signs. - Developed and implemented the CSTracker system to assist in the documenting and control of ICS related problems and requests. - The Information Centre has reallocated some of their staff duties, resulting in help desk staff being able to close more service calls. - Developed a Remote Access capability that allows ICS staff, on off hours, to be able to respond to problems without having to physically travel back to City Hall. - Developed an FAQ (frequently asked questions) feature on the Intranet for users. This results in fewer calls to the Information Centre help desk.	Continue to design and develop new software applications while also supporting and enhancing existing productions applications.
Land and Properties Develop a marketing strategy and land inventory management system for all land uses.	Marketing strategies for all commercial / industrial lots and residential subdivisions are approved by Council in conjunction with subdivision pricing. Lots and development packages, in high demand, are presented to the market by way of Expression of Interest.	Revising existing policies (land pricing, marketing and property leasing) by utilizing a consistent format.
Municipal Engineering - Eliminate backlog of Capital Projects. - Complete the process of creation and compilation of the City's Servicing and Development Standards.	- All backlogged and 2005 stormwater / drainage Capital Projects are underway. This leaves only three other Capital Projects which need to be initiated. - The process of creation and compilation of the City's Servicing and Development Standards was completed at year-end, awaiting presentation to City Council for adoption.	- Develop a tracking system for the Internal Review Process (circulation) of drawings and documents. - Enable digital submission of drawings for technical review and circulation. - Achieve the 50 per cent threshold of an overall City Watershed Management Plan. - Initiate Area Transportation Plans relative to the Roadway Systems Master Plan and Corridor Functional Planning Studies.
Municipal Works Align resources and responsiveness for sidewalk snow clearance operations with City Bylaw requirements.	The sidewalks issue will be reviewed in 2006 given other priorities.	- Be efficient and effective in how we identify, prioritize, and maintain our municipal infrastructure. Action plan: - Define our scope and need (gap) in terms of what we are doing and where we are lacking. - Carry-out a condition audit of our inventory. - Additional resources to improve overall snow clearance service levels on collector and school zones have been approved by Council and incorporated into the 2006-08 Business Plan and budget.

2005 Goals What we said we were going to do

Parks and Outdoor Recreation

- Improve internal business processes by focusing on safety.

Planning and Building

- Develop Medicine Hat as a safe and sustainable community.
- Complete and implement Permit Approval and Tracking System.
- Enhance quarterly reporting on activities and customer concerns.

Police Service

- Implementation of advanced technology and equipment aids to minimize required resources while maintaining officer and public safety.
- Implement Provincial integrated computer system to increase shared intelligence and information among Police agencies to enhance proactive policing.
- Achieve certification with the Provincial Policing Plan and provincial mandates to abide with legislative provincial mandates.

Protective Services

- Rewrite Standard Operating Procedures/Guidelines.
- Convert existing radio system to digital technology.
- Retrofit existing fire services facilities.

2005 Results What we did

- Regular joint workplace Environmental Health and Safety Committee meetings continued with a minimum of four meetings in each operating area of the department.
- Employees continued to be actively involved in incident reporting investigations and will continue to be involved.
- Maintenance of workplace Environmental Health and Safety records was completed.
- Continued, enhanced and documented crew 'tailgate' meetings.
- General staff meetings emphasize workplace Environmental Health and Safety.

- The Municipal Development Plan has been completed and implemented.
- Current modules are completed. Future modules to be undertaken in 2006/2007.
- Enhancements include reporting on turn-around times quarterly and reporting on the business plans.

- Upgraded Police Service firearms and added contracted photo radar processing staff and equipment.
- Connected to integrated Alberta Public Safety Network (APSNET), which allows sharing of provincial police records.
- Successfully maintained the implemented proposed changes. Process is ongoing.

- Ongoing – Completion by year end.
- Borrowing bylaw approved. Equipment ordered.
- Completed. Request for additional work to Board of Commissioners.

2006 Goals What we plan to do

- Continue to focus on workplace health and safety, and encourage overall health and wellness to provide a quality environment for employees (benchmarks / measurements established).

- Employ Smart Growth principles to develop Medicine Hat as a safe and sustainable community.
- The Inter-Municipal Development Plan will commence in 2006.

- Participate in the Provincial STEP program. With new members assigned to this responsibility, training and coaching will be required for them and other new members on Patrol.
- Sponsor a coordinator for the Medicine Hat and Area Drug Council. Participation with the Premier's Task Force on Crystal Methamphetamine and other Solicitor General programs will be actively supported. Education for all our front line officers on what to look for and actions to take will be developed. All Police Service Dogs will be trained to detect the common illegal drugs. Partnerships with Alberta Alcohol and Drug Abuse Commission, Mental Health, Federal Justice Department and local Harm reduction groups will be enhanced.

- Redefine the scope, structure and costs for Disaster Services delivery.



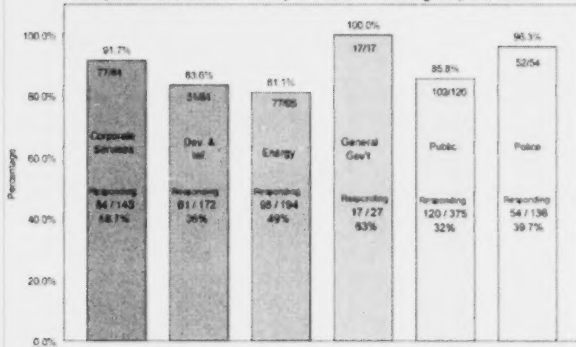
Organizational Learning and Growth

Supporting a Strong Workforce

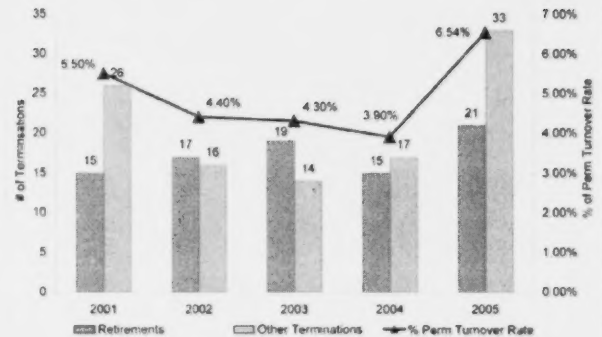
Highlights

Employee Survey

Responses to Question: The City of Medicine Hat is a good place to work



Permanent Employee Turnover



Constructive Culture "Our Journey Launched in 2005"

- To create a stronger understanding in the:
 - importance of serving our City.
 - roles we each must contribute.
 - shared common behaviours we value.
- To strive for a standard of excellence by:
 - openly supporting creative thinking.
 - ensuring personal and professional development.
 - goal setting and fulfilling our commitments.
 - holding ourselves and others accountable.
 - conducting ourselves with the utmost of integrity at all times.
- Create an exceptional workplace environment:
 - by developing trusting interpersonal relationships.
 - through open and honest communication.

Our Constructive Culture Journey

Constructive culture - a "commitment" to live these behaviors:

- Support Each Other
 - Mutual Respect
 - Positive Attitude
 - Encouragement
- Build Healthy Relationships
 - Understand each other
 - Teamwork Open Communication
- Achieve Excellent Results
 - Excellence
 - Continuous Improvement
 - Commitment
- Fulfill Our Potential
 - Personal Integrity
 - Innovation
 - Responsibility

2005 Goals

What we said we were going to do

- All Departments
- Maintain progress toward a constructive culture.

2005 Results

What we did

- Continue to develop our constructive culture through the organization.
- Implemented a plan for improvement based on the Declaration of a Commitment to a Constructive Culture.

2006 Goals

What we plan to do

- Maintain progress toward a constructive culture.

9-1-1

- Regular evaluations are completed with each staff member.
- Focus on continuing education and on-going re-certification training.

- Staff evaluations were completed in December 2005.
- Re-certifications on protocols due for six staff.
- One training course complete, two booked for April for the Quality Assurance Coordinator.

- Medicine Hat Regional 9-1-1 Communications becomes a recognized "Centre of Excellence" in compliance with internal protocols.

2005 Goals

What we said we were going to do

2005 Results

What we did

2006 Goals

What we plan to do

City Clerk

- Encourage continual learning and new departmental skill sets as opportunities present themselves.

- Staff attending courses.

- Encourage formal development of employees e.g. supervision, delegation, multi-tasking.

City Solicitor

- Annual department recalibration session.

- Department involved in ongoing implementation of Legislative Action Plan.

Community Development

- Provide employees with opportunities for continuous improvement.
- Continue focus on employee wellness and safety.

- Staff/individual meetings completed. (March 2006)
- Health and Safety Committees in all sub-departments meet on scheduled basis. (Completed)
- Organization Wellness proposal (Crestwood). (2006)

- Employee Support for:
 - Active Living, safety and wellness initiatives.
 - Continuous growth and achievement planning.
 - Customer service.
- Measurements:
 - Joint worksite Health and Safety Meetings (four times per year).
 - All staff receives development feedback on an annual or more frequent basis.
 - Number of training days minimally equals number of permanent positions.
 - 95 per cent of survey satisfaction with the workplace as good or better.
 - 80 per cent of the staff rates the corporation as having a positive corporate culture.

Corporate Asset Management

- Succession planning.

- Identified key positions that will be retiring in the next five years and are currently working with the union and senior management to develop strategies to address the challenges.
- Meet quarterly with all staff to enhance communications. Created an environment that is supportive of continuous learning and improvement.

- Create an environment to support teamwork, long-term planning, creativity and work effectiveness.

- Create environment to support teamwork, long-term planning, creativity and work effectiveness.

Corporate Communications

- Engage employees to improve internal corporate culture.
- Improve organizational capacity / skills for internal and external communicating.

- Continue with internal employee newsletter "In the Loop".
- Providing communication advice on constructive culture journey.
- Developed and delivered media relations training to approximately 50 staff spokespersons.

- Increase staff understanding of the importance of improved communications. Build a shared vision of the importance of sound communication within City Corporation.
- Improve organizational capacity / skills for internal and external communicating.
- Intranet content is comprehensive and is based on an employee service approach.

Cultural Development/Community Development

- *Cultural Development reported within the Community Development department in 2005.*

- Employee Support for:
 - Active Living, safety and wellness initiatives.
 - Continuous growth and achievement planning.
 - Customer service.
- Measurements:
 - Joint worksite Health and Safety Meetings (four times per year).
 - All staff receives development feedback on an annual or more frequent basis.
 - Number of training days minimally equals number of permanent positions.
 - 95 per cent of survey satisfaction with the workplace as good or better.
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2005 Goals
What we said we were going to do

2005 Results
What we did

2006 Goals
What we plan to do

Electric Utility

Electric Generation

- Provide services that contribute to becoming a community of choice by being an employer of choice.
- Improve employee utilization.

- Staff was asked to participate in a Strategic Thinking Workshop to assist in the development of the 2006 – 2008 Business Plan. Their involvement and commitment will assist the community in becoming a community of choice.
- Utilized the Mechanical Maintenance on sections of Facility Improvements.
- Utilized a plant person on modified work duties to assist in the safe coordination of the demolition of the Building Facility.
- Current safety performance in Electric Generation is below the Canadian Electricity Association Composite average of 10.0 incidents per 200,000 hours. Electric Generation is reporting four injury incidents to the end of December 2005.

- Harmonious work place where employees and management work together to achieve success for the customers.
- Provide a safe work environment within which all employees can perform their work without injury.

Electric Distribution

- Provide opportunities that contribute to becoming a community of choice and an employer of choice.
- Improve employee utilization and retention.

- In conjunction with North American Occupational Health and Safety, Electric Distribution department hosted a Family Safe Day in May 2005. This was attended by nearly 100 employees and family members. A similar event will be held in 2006. It will be open to the entire city.
- Current safety performance in Electric Distribution is below the Canadian Electricity Association Composite average of 2.10 incidents per 200,000 hours. Electric Distribution is reporting one accident during 2005. Significant progress has been made in updating employees with mandatory training requirements set forth by the City's Health and Safety department.

Environmental Utility

Water

- Develop a training program to meet Provincial Regulator's policy for continuing education of certified operators for the Water and Sewer Utilities.

- Underway.

- Enhance mutual understanding of operational, relational and political issues between Council, Executive and Environmental Utilities Senior Management team through facility and operational tours.

Finance

- Succession planning.
- Create environment to support teamwork, long-term planning, creativity and work effectiveness.

- Cross training of key and at-risk positions are ongoing. Employee supply and demand will be determined through the 2006 achievement planning process.
- 2006 – 2008 Business plans were completed with staff involvement.
- Seven members of the Finance team attended Work Group Leader or Personal Mastery courses conducted by the City during 2005. Fifteen staff have received Excel Awards during 2005.

- Finance has a motivated and prepared workforce through the creation of a climate for action and improved staff competencies.

Gas Utility

Gas Production

- Continue development of existing staff to begin succession planning.

- Where required, field operations and administrative support have been added to fill vacancies and new positions.
- Reorganization of Engineering and creation of a Gas Production Standard Practices and Procedures Manual will be completed in 2006.

- Foster a constructive environment that will allow Gas Production to work together with the rest of the City departments in a spirit of respect, founded upon trust and open and honest communication.

Gas Distribution

- Be an "Employer of Choice".

- Winter training of staff was completed in order to maintain and increase their competency and skills. A 2005 employee satisfaction survey has been completed and results show that the Gas Utility is at 91 per cent exceeding the corporate target of 90 per cent.

- Be an "Employer of Choice" in retaining and attracting staff during the baby boomer retirement years because of the limited number of skilled workers that will be available to maintain operation of the Business Unit.

2005 Goals

What we said we were going to do

Human Resources

- Continue to develop departmental staff so they can effectively carry out Human Resource's many roles as "Strategic Partner" to the corporation.
- Continue to grow the talent/skill level of the City's individual staff and work groups by supporting the application of principles learned through leadership training.
- Develop succession planning strategies to address the significant turnover expected within the corporation over the next two to eight years.

Information and Computer Services

- Continue to provide user departments with effective computer training classes.
- Continue to grow the talent and skill level of the ICS staff with a focus on succession planning.

Land and Properties

- Each department member expands their knowledge base by attending learning opportunities each year.

Municipal Engineering

- Employ personal employee development as a tool for succession planning.
- Pursuit of an engineering centre of excellence – striving for excellence by continually improving the values of our services.

Municipal Works

- Improve upon how we employ and train our personnel.
- Ensure personnel have the appropriate skills and capabilities for assigned responsibilities.
- Improve upon internal co-operation between departments and sub-departments.

2005 Results

What we did

- Various ongoing training and skill development activities including formal education, certifications, seminars and practical opportunities to build competencies.
- Group 18 of Personal Leadership Program and groups 7 and 8 of Work Group Leader Program completed.
- Other standalone modules such as Effective Communication through Writing continued and other opportunities for development for 2006.
- Overall succession planning framework developed and agreed upon with General Managers Group – specific attention to leadership positions to occur through 2006 Achievement Planning discussions.
- Specific strategies discussed / advanced with departments on ongoing basis.
- Continued to expand the use of profiling tools such as Work Style Patterns to facilitate best fit of candidates with position vacancies.

- Coordinated 33 training classes for 239 students in 2005.
- Continued to provide internal GIS training for new and existing GIS users, resulting in better product knowledge and increased proficiency with the software.
- Facilitated software upgrade training for all City AutoCad users in conjunction with IMAGINIT Technologies.
- Staff continue to advance their skills through leadership training, technical training, and attending workshops.
- Achievement planners were completed by each staff member and reviewed with their direct supervisor.
- GIS staff are applying for formal designation as certified GIS professionals.

- Each member has either participated in development seminars or is inquiring into the availability of courses specific to their interests.

- Few departmental staff have participated in the City's Personal Mastery Program to enable usage of these tools. Staff have begun expressing an interest in taking this training, opening future opportunities.
- Staff has participated in a number of technical training paths that build on the "engineering centre of excellence" theme. Staff is increasingly providing knowledge-based solutions to customer generated problems.

- Staff has been recruited with appropriate skills and accreditation (e.g. PEng, CET), and assigned technical areas of expertise to maintain competency and capability.
- Management and administration have been co-located with field staff to help improve efficiency, understanding of roles and responsibilities, and develop a constructive culture.

2006 Goals

What we plan to do

- Keep Corporate Culture a top priority through advancing on the Organizational Development Initiative.

- Continue to provide user departments with effective computer training classes.

- Department members attend at least one professional development seminar (example: marketing, expropriation, administrative, environmental, innovative housing) per year.
- As a department, ensure the department is under the provincial average days lost time claims per 100 employees.

- Establish individual training and development plans for all Municipal Engineering staff.
- Update employee Safety Training to make all staff current in corporate Safety/Wellness training.

- Provide an environment by which all employees may perform their work in a safe manner without accidents and injuries. Action plan:
 - Continue with our departmental Occupational Health and Safety programs, inspections, and training.
 - Support and encourage continuous training and development.

2005 Goals

What we said we were going to do

Parks and Outdoor Recreation

- Ensure service guidelines are met or surpassed through performance measurement, staff orientation and development.

Planning and Building

- Hire, develop and maintain a competent staff team.

Police

- Training and development of the Police Service personnel to maintain a sufficient level of expertise and to enhance the organizational strength.
- Continued recruitment strategies to attract top quality candidates to ensure the Police Service maintains high professional standards and continues to work towards a complete community-policing concept.
- Continue to assist staff in furthering their education at a higher level.

Protective Services

- Enhance training for emergency response personnel.

2005 Results

What we did

- Completed probationary employee evaluations in advance of closure of the probationary period, temporary employee evaluations prior to the end of the term, and semi-annual permanent employee evaluations are ongoing.
- Provision and assessment regarding continuous performance enhancement is ongoing.
- Actively encouraged all staff to pursue opportunities for education and training.
- Three general staff meetings took place with an emphasis on workplace Environmental Health and Safety.
- Delivered an annual departmental Employee Orientation Program with support from internal and external sources.

- Department is operating near full staffing levels.
- Training and mentoring of junior Planning and Safety Codes employees is progressing.
- Training for new objective based codes is ongoing.

- Have been successful in finding adequate recruit training and development courses for staff. Process ongoing.
- Completed an experienced officer recruitment process, with four officers hired to replace retired officers.
- Recruiting for 2006 Recruitment Class.
- Partnered with learning institutions and involved with Certification of Alberta Professional Police Officers (CAPPO).

- Underway and ongoing.

2006 Goals

What we plan to do

- Provide an environment that supports two-way communication and continuous feedback to encourage learning and growth.

- Hire, develop and maintain a competent staff.

- Learning and growth will be addressed within the Service and the community with information sessions and monthly reports. i.e.: collisions, photo radar, traffic enforcement contacts, etc.
- It is our intention to increase the vigilance on illegal drug activity as it has a direct relationship with other crimes, i.e.: break and enters, home invasions, violence, and weapon charges, etc.

- Continue to refine the Community Education Enhancements (on-going).



IN WINTER HERE I MARK THE HOURS

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Financial
Report

treasurer's report

For the year ending December 31/05

Introduction

I am pleased to submit our 2005 Consolidated Financial Statements for the fiscal year ended December 31, 2005. KPMG LLP has audited these statements and provided an unqualified audit opinion.

The City is responsible for both the accuracy of the data and the completeness, and fairness of the presentation, including all disclosures. This report provides users an overview of the City of Medicine Hat's financial performance.

The purpose of the Annual Report is to present the users and readers with a clear insight of the financial results for our fiscal year ended December 31, 2005. We strive to ensure that this report presents fairly the financial position of the City of Medicine Hat. The report compares how financial resources were used against budgets and past financial performance. The report is divided into six sections:

- Introduction – Provides an overview of the Treasurer's Report.
- GFOA Award for Financial Reporting.
- Risk Management – Discussion of Risks and Risk Management Strategies.
- Management Reporting and Control – Provides an explanation of the planning, budgeting, accounting, auditing and reporting process.
- Financial Review – Presents a discussion and analysis of the City of Medicine Hat financial activities and position for the fiscal year ended December 31, 2005. It is supplementary information to the financial statements, therefore should be read in conjunction with the consolidated financial statements, accompanying notes and supporting schedules.
- Financial Statements – Presents the consolidated financial statements, supporting statements, notes and schedules and the independent external auditor's report. These statements and schedules contain comparative results for two prior years, current year results and the approved budget for the operating, capital and reserve funds.
- Statistics – Presents a variety of statistical and financial information on a multi-year comparative basis.

GFOA Award for Financial Reporting

The Government Finance Officer's Association of the United States and Canada (GFOA) awarded a Canadian Award for Financial Reporting to the City of Medicine Hat for its Annual Financial Report for the fiscal year ended December 31, 2004. The Canadian Award for Financial Reporting program was established to encourage municipal governments throughout Canada to publish high quality financial reports and to provide peer recognition and technical guidance for officials preparing these reports.

Canadian Award for Financial Reporting

Presented to

City of Medicine Hat,
Alberta

For its Annual
Financial Report
for the Year Ended
December 31, 2004

A Canadian Award for Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to municipalities whose annual financial reports achieve the high program standards for Canadian Government accounting and financial reporting.



Carol E. Prange
President

Jeffrey L. Eaves
Executive Director

Ray J. Gilmour

Ray J. Gilmour
MBA, CMA, BSA.



In order to be awarded a Canadian Award for Financial Reporting, a government unit must publish an easily readable and efficiently organized annual financial report whose contents conform to program standards. Such reports should go beyond the minimum requirements of generally accepted accounting principles and demonstrate an effort to clearly communicate the municipal government's financial picture, enhance an understanding of financial reporting by municipal governments and address user needs.

Risk Management

This section of the report deals with the City's exposure to risk and uncertainty to enable the reader to make informed judgements about the implications of these risks on the City's financial position and changes in financial position.

(a) Operational Risk Management

The City's operations are insured under a purchased insurance program, which includes Property, Boiler and Machinery, Liability, Automobile and Oil and Gas Multi-Energy. The insurance program includes a self-retention component for those losses within the various deductible levels.

(b) Public Safety

Medicine Hat Police Service has kept pace with the growth in the community and the demand for services from residents. This has been accomplished through implementation of technology and equipment to more effectively utilize resources while maintaining officer and public safety, as well as continued training and development of the Police Service personnel to maintain a sufficient level of expertise to enhance organizational strength. Funding to Police Services has continued to increase to ensure that the needs of the public are met.

The goal of the Protective and Emergency Services is to provide quality protection to the community through the delivery of fire, rescue, community safety and educational programs and to rapidly respond to emergencies. The department continues to monitor City growth patterns and recommend changes or improvements that will provide a balanced measure of protection to new areas.

The City operates a 9-1-1 Communication Centre, serving our community as a single point of contact for allocation of emergency and essential services to the residents of Medicine Hat and area. 9-1-1 serves a regional population of approximately 100,000 with immediate contact capability for language interpreters, poison control, disaster services, chemical spill information and call trace. The aim is to maintain a level of service that meets industry standards with respect to call answer times and protocol compliance.

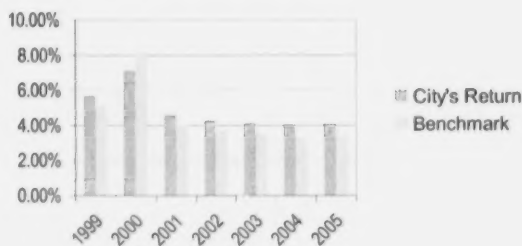
(c) Treasury Management

City funds are invested in accordance with Investment Policy #0110. The goal of this policy is to ensure that the investment of City funds is made in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City, while conforming to all provincial statutes and regulations governing the investment of municipal funds. Investment performance is benchmarked against the Scotia McLeod Universe Bond Index with an overall objective of sustaining a yield that exceeds 80 per

cent of the index. The Treasury Team meets monthly to review the investment portfolio and monthly activity. A Treasury Report, complete with performance indicators, is compiled quarterly and distributed to Corporate Services Committee and City Council.

In addition, internal control procedures are designed to ensure that the daily handling of cash is managed in a secure manner.

Rate of Return



(d) Environmental

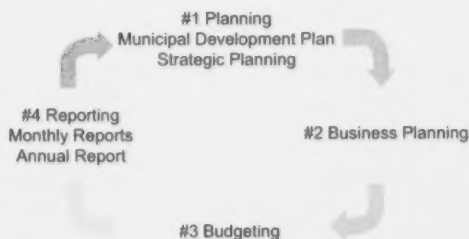
The Environment Management department serves as the focal point on matters relating to environmental stewardship and compliance. This department supports operating departments in maintaining appropriate levels of environmental due diligence, by providing assistance in interpreting and complying with evolving and emerging environmental regulatory requirements and industry standards. One of the goals is to keep Council informed of the City's progress in striving for continual improvement in management systems that focus on both compliance and proactive excellence in matters of environmental stewardship. The department also maintains a special focus on issues relating to sound management of the South Saskatchewan River watershed. Another goal is to support Council's environmental stewardship priority by ensuring that the City is in compliance with relevant laws, regulations and approvals, by informing key stakeholders within the municipality of current and emerging environmental issues that could impact upon the quality of life in Medicine Hat, and by striving to encourage a corporate culture that considers environmental protection during our normal course of business.

Management Reporting and Control

The following section deals with the planning, reporting and audit process.

(a) Strategic Planning and Budgeting

Governance Our Business Cycle



City Council develops a Strategic Plan highlighting priorities, strategies and goals for the planning period. Based on the direction set out by the Strategic Plan, three-year Departmental Business Plans are prepared. These Business Plans communicate each department's alignment with the Strategic Plan and identify:

- The core activities of the department and the aim of each activity.
- Departmental customers.
- Opportunities, trends and challenges faced by the department.
- Goals and objectives to be achieved by the department.
- Capital profile and assumptions.

Budget guidelines and high-level financial projections are developed. Based on these guidelines and Departmental Business Plans, departments develop their budget requests. Effective for the 2006 – 2010 planning period City Council has approved the adoption of a three-year operating and capital budget with a two-year projection.

The Board of Commissioners reviews departmental budgets and when satisfied that budgets are aligned with the Business Plans, the budget recommendation is presented for Council approval.

Medicine Hat's Operating Budget lays out the revenues and expenditures for the planning periods that will be required to deliver City services.

A five-year Capital Improvement Plan is developed for all departments. The Capital Improvement Plan identifies proposed capital project expenditures and their sources of financing.

Effective for the 2006-2008 budget period the City has adopted a capital ranking process for the Tax Supported departments. This process is intended to ensure that capital funding is allocated to the projects that will provide the highest value to the municipality.

(b) Accounting

The City of Medicine Hat is organized in four divisions, Corporate Services, Public Services, Development and Infrastructure, and Energy. Each division is responsible for managing the delivery of services in accordance with the resources allocated. All divisions share a common accounting and reporting system, and financial and accounting services are administered under the direction of the Commissioner of Corporate Services and delivered to each division based on their requirements.

(c) Auditing

The Municipal Government Act requires municipal Councils to appoint an independent auditor. In 2003 Medicine Hat City Council appointed KPMG LLP, as the external auditor for a five-year term.

The role of the external auditor is to present an independent opinion on the fair presentation of the City's financial position and operating results as contained in the Financial Report, and to express an opinion that the financial statements are free from any material misstatements. The auditor advises management and the Audit Committee of any control or operational matters that may have been identified during the audit procedure.

The Audit Committee, comprised of three members of City Council,

is a Committee of Council. The Audit Committee is responsible for recommending the appointment of the independent auditor, reviewing the terms of the engagement and overseeing management's responsibilities for financial reporting. The Audit Committee meets with management and the independent auditors to approve the scope and timing of the audit, to review the auditor's findings and to ensure that management is carrying out its responsibilities.

(d) Annual Report

The annual report contains the audited financial statements consistent with principles and standards for financial reporting established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants, as required by the Alberta Municipal Government Act. In addition, it serves as an opportunity to communicate with taxpayers and other members of the public regarding the City's financial performance and significant financial events in 2005.

Financial statements in the public sector serve as a central feature of reporting and assessing the management of public financial affairs. They report the municipality's actual financial activities, in comparison to planned activities and the resulting financial condition of the municipality. They are only one factor in determining the financial condition of a government and do not replace a variety of other reports that are prepared. The financial statements serve as a means by which a municipality provides a report of its administration of public funds and presents information that is useful in evaluating the municipality's financial condition at the end of a year and its financial performance through the year.

The information in this Annual Report is the responsibility of Management. KPMG LLP, the City's independent auditors, have audited the accompanying statements and their report accompanies the financial statements.

Council carries out its responsibility for the Consolidated Financial Statements through the Audit Committee.

Financial Statement Discussion and Analysis

(a) Overview

Overall, the financial results for 2005 are favourable as compared to budget and prior years.

- Total Financial Assets increased \$61.7 Million from \$238.4 Million in 2004 to \$300.1 Million in 2005. This increase is the result of an increase of \$42.5 Million in investments primarily related to the favourable performance of the Gas Production department.
- Capital Assets increased \$37.2 Million. This increase is primarily related to the Gas Production capital programs.
- Total Liabilities increased \$9.7 Million from 2004 to 2005. Accrued Liabilities increased \$14.5 Million. This increase is primarily related to the Alberta Municipal Infrastructure Program. Other Long-Term Liabilities increased \$5.3 Million. This increase is due to the increase in the Gas Asset Retirement Obligation. These increases were offset by a reduction in Trade Accounts Payable and the Loss in Subsidiary.
- Net Consolidated Revenues are \$330.0 Million compared to a budgeted amount of \$276.7 Million. Gas sales were \$33.1 Million

over budget as a result of commodity prices for wholesale gas significantly above expectations, combined with a small production volume improvement.

- The City of Medicine Hat's investment return for the year ended December 31, 2005 averaged 4.06 per cent outperforming the Scotia McLeod benchmark index of 3.38 per cent. The City's average portfolio return has outperformed the stated benchmark the last 16 quarters.
- During 2005 the City borrowed \$9 Million; \$3.8 Million of this increase relates to Tax Supported expenditures. Principal in the amount of \$12.5 Million was repaid. Of this repayment, \$2.9 Million relates to Tax Supported debentures while the balance relates to utilities. The net decrease in long-term debt is \$3.5 Million.
- Tax Supported debt per capita decreased from \$534 to \$505, Utilities supported debt per capital decreased from \$2,553 to \$2,256.

(b) Statement of Consolidated Financial Position

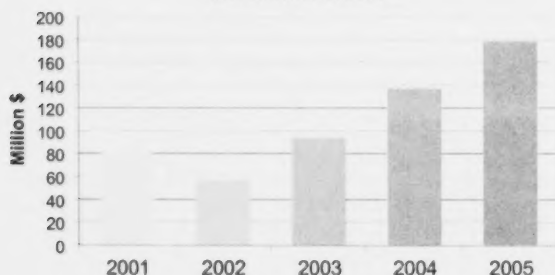
The Statement of Consolidated Financial Position reports the financial and capital assets of the City. The difference between the financial assets and total liabilities are the Net Financial Assets if positive and Net Debt if negative. This figure provides the reader with an indicator of financial flexibility and of the City's future revenue requirements to finance activities and meet financial commitments.

The non-financial assets of the City are assets that are, by nature, normally for use in service provision and include purchased, constructed or developed physical assets.

In 2005 the Net Financial Asset position increased \$51.1 Million from \$(15.9) Million in 2004 to \$36.1 Million in 2005. This increase is the result of favourable earnings in the Gas Utility and Land and Subdivision Development.

Investments increased by \$42.5 Million primarily as a result of earnings from Gas Utility operations.

Investment Portfolio



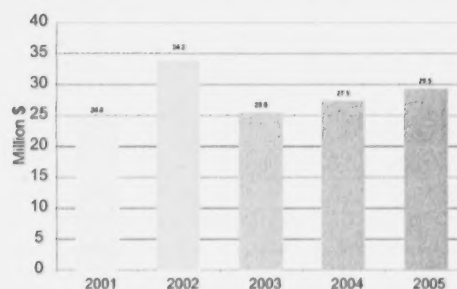
Accrued Liabilities increased \$14.5 Million. This increase relates primarily to the Alberta Municipal Infrastructure Program of \$10.3 Million and an increase in Accrued Royalties in the Gas Utility from \$5.7 Million in 2004 to \$8.5 Million in 2005. This is due to the fact that Royalties Payable on produced gas have followed the commodity price.

Long-Term Liabilities increased \$5.3 Million as a result of Accrued Liabilities and Asset Retirement Obligations in the Gas Utility. The total liability for the Gas Asset Retirement Obligations at the end of 2005 is

\$36.6 Million. This legal obligation is related to liabilities associated with the future retirement of tangible long-lived petroleum and natural gas assets resulting from the acquisition, construction, development and normal use of petroleum and natural gas assets.

Operating Fund balances increased from \$27.5 Million to \$29.5 Million. City policy directs that any surplus in Operating Funds not required to maintain the operating fund target balance of seven per cent of the prior year's budgeted gross expenditures be transferred to the departmental reserves for Electric, Gas and General Government. In 2005 surplus funds in the amount of \$2.6 million for General Government, \$2.6 million in Electric and \$92.7 million in Gas were transferred to reserves.

Consolidated Year-end Operating Fund Balance



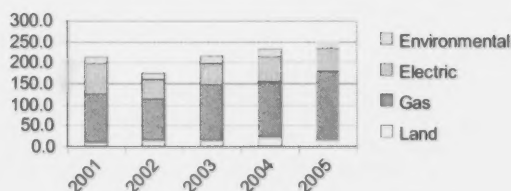
The Capital Fund decreased from \$24.4 Million to \$12.9 Million. This change is the result of a reduction in the funds set aside for the completion of various Gas Utility capital projects. If the projects intended for completion by December 31, 2005 would have been completed these projects would have been funded from the Capital Fund and debt. Completion of these projects would have decreased cash and therefore the Net Debt Position would have increased.

Reserve Fund balances have grown from \$99.8 Million to \$156.9 Million. Transfers to reserves were \$104.2 Million compared to a budget of \$86.4 Million. Expenditures funded by reserves totalled \$47.1 Million. Gas Utility capital projects and funding for the Esplanade were the major uses of reserves. The notable increase in transfers to reserves relates to the Gas Depletion Reserve which was \$92.7 Million.

(c) Consolidated Statement of Financial Activities

The Consolidated Statement of Financial Activities reports the extent to which revenues raised in 2005 were sufficient to meet expenditures. It shows whether the City has met its expenditures with revenues, by incurring liabilities or by drawing on existing financial assets.

Combined Land and Utilities Sales Revenues



The excess of revenue over expenditures was \$51.1 Million compared to a budget of \$40.6 Million.

Of the total consolidated operating revenue of \$330 Million, 71 per cent was derived from the sale of goods and services by the Electric, Gas, and Land and Subdivision Development. Much of the revenue generated by Gas operations is achieved through sales of natural gas to external markets. Net municipal taxes provided \$28.5 Million.

The Change in Fund Balance on the Consolidated Statement of Financial Activities represents the total change in all fund balances for the City of Medicine Hat. During 2005 the consolidated fund balances increased by \$47.6 Million. This increase is primarily through sales of natural gas and land for residential, commercial and industrial development.

(d) Consolidated Statement of Changes in Financial Position

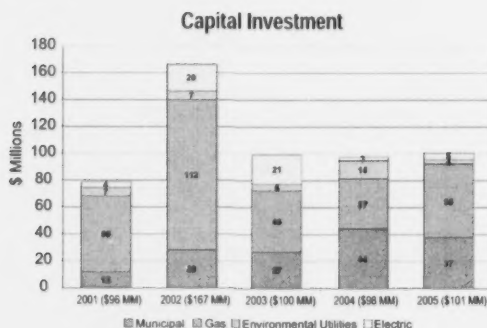
The Consolidated Statement of Changes in Financial Position provides a summary of the sources, allocation and consumption of the resources administered by the City in the period. The statement combines operating, capital and reserve fund changes. This information is useful in gaining an understanding of and assessing the City's resource requirements. The statement informs users about the extent to which resources will be required from future revenues to pay for programs and activities of the period.

The amount of cash flows arising from operating activities is a key measure of the extent to which the operations of the government have generated sufficient cash flows to maintain the programs and services of the government, invest in new capital assets, repay loans and make new investments without relying on external debt.

During 2005 net cash from operations was \$57 Million. These funds were used for investments, debt repayment and an increase in cash.

(e) Consolidated Capital Fund Schedule 1

The Consolidated Capital Fund Schedule provides information on the investment in capital assets during the year and how this investment was financed.

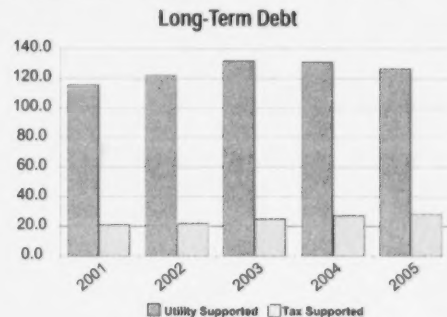


Capital investment during 2005 totaled \$101.4 Million. The majority of the funds were spent for gas assets, \$54.7 Million, with the most notable expenditure being \$37.7 Million for the Gas Drilling Program. Municipal Operations spent \$37.2 Million. Included in this total is \$13.4 Million for the Esplanade, \$3.3 Million for 10 Avenue SW

Upgrade and \$5.5 Million for roads, sidewalks and storm sewers in new subdivisions.

Major sources of capital investment financing in 2005 were:

- Debenture issues: \$ 9.1 Million
- Transfers from Reserves: \$47.1 Million
- Transfers from Operating: \$21.1 Million
- Government Grants: \$ 5.2 Million
- Developer Levies and Other: \$7.5 Million



Over the next few years, City Council's priorities regarding sustainable utilities and sound infrastructure will require continued investment. The 2006 – 2010 Capital Improvement Plan calls for several major expenditures. In particular, the sustainability of the Gas Utility depends upon substantial reinvestments. Over \$52 Million is to be invested during 2006 with a projected investment of over \$92 Million in the following four years, to add to and improve production facilities. To meet the demand for residential, commercial and industrial development \$102 Million is to be invested in the development of land for resale over the next five years. On the Municipal side, budgeted capital expenditures over the next three years are \$16.1 Million (2006), \$12.7 Million (2007), \$14.5 Million (2008) with \$58.4 Million projected for 2009 and 2010. Highlights of the 2006 expenditures are: Fleet purchases - \$5.3 Million, Road Upgrades - \$2.4 Million, Storm Water Systems - \$1.4 Million, Airport Enhancements - \$1.2 Million.

During 2005 the Consolidated Capital Fund Balance decreased by \$11.5 Million. This change relates primarily to a decrease in the Gas Capital Fund balance of \$14 Million. This represents amounts previously set aside to complete various capital projects during 2005. The \$12.9 Million balance at the conclusion of the year represents funding for incomplete capital projects funded through operations and debt which is maintained in the capital fund to cover the costs of projects that are incomplete at year end.

(f) Consolidated Operating Fund Schedule 2

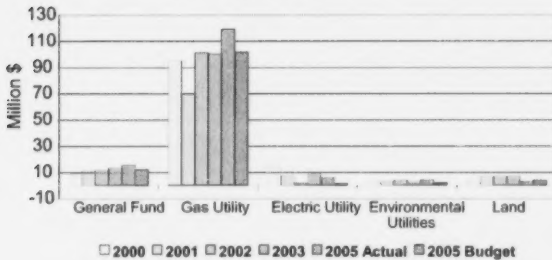
The Consolidated Operating Fund Schedule reports operating revenues for the year segregated by significant types of revenue and also reports on the expenses of the year for Tax Supported, Utilities, and Land and Subdivision Development operations.

Operating activities resulted in excess revenues over expenditures totaling \$140 Million in 2005. This was the net result of revenues totaling \$317.3 Million (budget comparative was \$272.5 Million) offset by expenditures totaling \$177.5 Million (budget comparative was \$172.4 Million). It is important to note that after a Transfer to the Capital Fund totaling \$21.1 Million, Debt Repayment of \$12.5

Million and to the Reserve Fund totaling \$104.2 Million, the resulting change to the Consolidated Operating Fund balance was an increase of \$2.0 Million. As a result the closing Operating Fund balance or "consolidated surplus" increased from \$27.5 Million in 2004 to \$29.5 Million in 2005.

(i) Revenues

**Net Revenue from Operations
(Before Capital and Interfund Transfers)**



The Gas Utility sales earned \$161.4 Million against a budget of \$128.3 Million. Gas Production average sales price was \$6.16 per gigajoule (GJ) compared to a budget of \$5.19, an increase of 19 per cent. \$92.7 Million has been transferred to the Depletion Reserve to finance the future acquisitions and development of natural gas properties required to ensure an ongoing supply of natural gas to the residents of Medicine Hat.

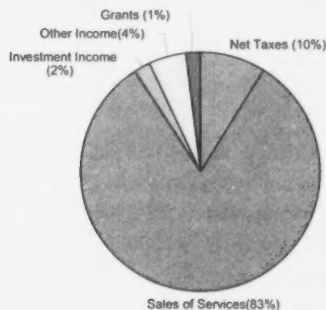
The Electric Utility earned \$55.9 Million, against a budget of \$57.3 Million.

Environmental Utilities, considered as a whole, reported sales revenues of \$19.5 Million against a budget of \$19.8 Million.

Land and Subdivision Development reported \$17.2 Million in sales revenues, or 18 per cent higher than budgeted, as a result of continued demand for residential and commercial lots sales. Residential sales were \$3.9 Million over budget, with Commercial and Industrial sales reporting an unfavourable variance of \$1.5 Million.

Tax Supported operations reported a surplus of \$3.3 Million.

2005 Consolidated Operating Fund Revenue



Prudent operations of the City's Utilities have allowed the City to maintain attractive rates for its customers. At the same time, the City has been able to direct dividends from the Utilities to offset annual requirements for property taxes. During 2005, City Council approved

a plan to have each Utility generate sufficient revenue to cover their costs by 2008, with the exception of the Water Utility which will cover costs by 2007. This plan will ensure equity will not erode after 2008.

(ii) Expenditures

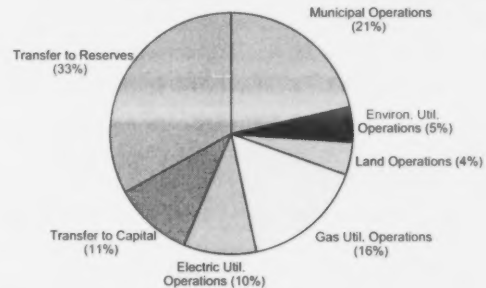
Expenditures for operations increased by \$15.2 Million over 2004. This increase relates to increased costs related to expanded fire protection, increased staff to meet the demands of the growth in the community, as well as growth in customer expectations. In addition, operating costs associated with the Esplanade and inflationary factors have contributed to the increased cost to provide municipal, Environmental Utilities, and Energy related services.

Expenditures for Land and Subdivision Development exceeded the budget by \$3.8 Million. The increase relates to the cost of goods sold which is offset by an increase in revenues of \$2.7 Million.

Municipal Operating expenses were over budget by \$1.7 Million. Police Services were over budget by \$0.5 Million as a result of increased fuel costs and services related to law enforcement. Public Services reported an unfavourable variance of \$1.3 Million as a result of increased fuel and maintenance costs for transit, cost of sales for concessions, the flood, and operating costs for the Esplanade. These unfavourable variances were offset by favourable variances of \$0.8 Million related to increased traffic enforcement and a favourable variance of \$1.5 Million for Public Services from increased concessions, Esplanade revenue, and flood recovery.

In addition to the \$177.5 Million spent in total on all operations in 2005 another \$21.1 Million, \$104.2 Million and \$12.5 Million were transferred to the capital, reserve funds and debt repayment respectively, for a total of \$315.3 Million in expenditures and transfers.

Use of Operating Funds (\$315.3 Million)



The change in operating fund balance of \$2 Million represents the amount allocated to the operating fund after transfers to capital and reserves.

Tax Supported Policy directs that special one-time grants and any surplus in the Tax Supported Operating Fund not required to maintain the Operating Fund target balance of seven per cent of the prior year budgeted gross expenditures be transferred to the Infrastructure Reserve.

The Gas and Electric Utility also follow the policy of maintaining an operating fund of seven per cent of the prior year budgeted gross expenditures before transferring operating surplus to reserves. As a result of this policy the Tax Supported Operating Fund increased

\$0.7 Million and the Gas Operating Fund decreased \$1.2 Million and Electric increased by \$2.0 Million.

(g) Consolidated Reserve Fund Schedule 3

This Consolidated Reserve Fund Schedule reports the net changes to the reserve fund and the source of increases or decreases to this fund. Reserves are the result of appropriations of surplus and budgeted transfers from operating funds. Reserves are established at the discretion of Council and are set aside to fund future operating and capital expenditures.

There are four major reserves, the Gas Depletion Reserve which is intended for future acquiring, exploring for and developing natural gas reserves, the Electric Facility and Equipment Reserve which is to provide funding for replacement of depreciated assets and investment in new Electric Utility assets, the Fleet Replacement Reserve, and the Infrastructure Reserve. The last two reserves are used to fund future municipal infrastructure improvements and fleet purchases, thereby reducing debenture-borrowing requirements.

During 2005, \$104.2 Million was transferred from the operating fund to reserves. The Gas Utility budget included a transfer of \$79.8 Million to the Gas Depletion Reserve. The actual transfer was \$92.7 Million. This increase relates to higher wholesale commodity prices and a small production volume increase. Tax Supported operations budgeted a transfer of \$6.8 Million while the actual transfer was \$9.8 Million.

In 2004 a policy was approved that will see all municipal capital expenditures valued at less than \$1 Million financed through the Infrastructure Reserve to a maximum of \$6 Million annually. The goal is to limit external borrowing for capital projects to those projects costing in excess of \$1 Million. In the long term, this policy will have the effect of reducing the amount of municipal debt outstanding. In 2005, \$2.0 Million was borrowed from this reserve for capital expenditures.

(h) Consolidated Schedule of Equity Schedule 4

The Consolidated Schedule of Equity reports the changes in equity balances for capital assets. This schedule supports the disclosures in the operating, capital and reserve funds. Overall equity in capital assets increased by \$40.7 Million over 2004.

(i) Consolidated Taxes Levied Schedule 5

The Consolidated Taxes Levied schedule details total taxes received from all sources and the amount of requisitions collected on behalf of the School Districts, Cypress View Foundation and Business Exchange Levies. Net taxes for 2005 were \$28.5 Million as compared to a budget of \$28.4 Million.

(j) Consolidated Government Transfers Schedule 6

The Consolidated Government Transfers schedule details the total government transfers received for operating and capital activities and the purpose of these transfers.

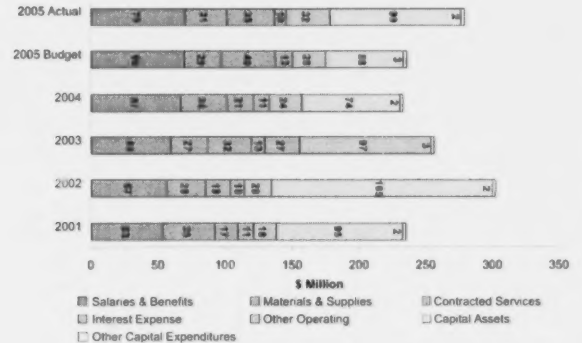
In 2005 the City received \$11.3 Million in Government Grants. These transfers related to conditional transfers such as the Municipal Assistance Grant \$0.9 Million, the Police Enforcement Grant \$0.9

Million, Family and Community Support Services Grant \$1.0 Million, \$2.5 Million for Road and Sidewalk Rehabilitation capital programs, and \$2.1 Million for Flood Assistance.

(k) Consolidated Expenditures by Object Schedule 7

The Consolidated Expenditures by Object schedule details actual and budgeted expenditures by object.

Use of Operating Funds by Object



Management's Report

The integrity, relevance and comparability of the data in the accompanying consolidated financial statements are the responsibility of Management.

The consolidated financial statements are prepared by management in accordance with Canadian generally accepted accounting principles established by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. They necessarily include some amounts that are based on the best estimates and judgments of Management. Financial data elsewhere in the report is consistent with that in the financial statements.

Management has developed and maintains an extensive system of internal controls that provide reasonable assurance that all transactions are appropriately authorized, that assets are properly accounted for and safeguarded, that all transactions are accurately recorded and that financial records are reliable for preparation of financial statements. As well, it is the policy of the City to maintain the highest standard of ethics in all its activities.

KPMG LLP, our independent auditors, have been appointed to express a professional opinion on the consolidated financial statements. Their report follows.

City Council, through its Audit Committee, comprised of three aldermen, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and independent auditors to discuss auditing and reporting on financial matters and to ensure that management is carrying out its responsibilities. The auditors have full and free access to the Audit Committee and management.



Chief Administrative Officer



Commissioner of Corporate Services

March 3, 2006

Auditor's Report

To His Worship The Mayor and Members of the Council of the City of Medicine Hat

We have audited the consolidated balance sheet of the City of Medicine Hat as at December 31, 2005 and the consolidated statements of revenues and expenditures and cash flows for the year then ended. These financial statements are the responsibility of City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the City of Medicine Hat as at December 31, 2005 and the results of its financial activities and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Lethbridge, Canada
March 3, 2006

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2005
(In thousands of dollars)

	2005	2004	2003
FINANCIAL ASSETS			
Cash and Temporary Investments (Note 2)	\$ 16,965	\$ 5,416	\$ 7,659
Accounts Receivable (Net of Allowances) (Note 3)	39,449	33,192	26,630
Advances to Subsidiary (Note 4)	18,978	20,448	21,270
Inventories for Resale (Note 5)	22,177	20,022	17,800
Investments, Loans and Advances (Note 6)	178,850	136,301	93,420
Deposits and Other Assets (Note 7)	3,222	2,308	1,291
Long Lived Asset - Retirement Obligation	19,403	19,828	13,760
Prepaid Expenses (Note 9)	1,068	934	615
TOTAL FINANCIAL ASSETS	300,112	238,449	182,445
LIABILITIES			
Bank Indebtedness	\$	\$ 1,803	\$
Trade Accounts Payable	12,998	16,105	11,563
Accrued Liabilities (Note 11)	43,654	29,108	28,501
Long-Term Debt - Alberta Capital Finance Authority (Note 13)	154,481	157,927	155,947
Other Long-Term Debt (Note 13, 14)	270	276	302
Loss in Subsidiary (Note 8)	8,086	9,798	9,978
Other Long-Term Liabilities (Note 15, 22)	44,539	39,285	29,604
TOTAL LIABILITIES	264,028	254,302	235,895
NET FINANCIAL ASSETS (LIABILITIES)	36,084	(15,853)	(53,450)
PHYSICAL ASSETS			
Inventories for Consumption	8,422	9,275	8,739
Capital Assets (Note 10)	904,538	867,318	820,226
NET ASSETS	949,044	860,740	775,515
MUNICIPAL POSITION			
FUND BALANCES			
Operating Fund (Schedule 2) (Note 1, 16)	29,454	27,450	25,645
Capital Fund (Schedule 1) (Note 17)	12,884	24,375	8,242
Reserve Fund (Schedule 3) (Note 1, 18)	156,919	99,801	77,653
TOTAL FUND BALANCES	199,257	151,626	111,540
Equity in Capital Assets (Schedule 4)	749,787	709,114	663,975
NET MUNICIPAL POSITION	\$ 949,044	\$ 860,740	\$ 775,515

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005
(In thousands of dollars)

	2005 BUDGET (Unaudited)	2005	2004	2003
REVENUE				
NET TAXES (Schedule 5)	\$ 28,477	\$ 28,487	\$ 25,620	\$ 22,537
SALE OF SERVICES				
General Government	5,279	6,029	5,632	5,220
Gas	128,252	161,387	129,817	129,178
Electric	57,335	55,856	58,399	53,687
Water	8,017	7,636	7,540	7,493
Sewer	6,978	6,954	6,296	5,642
Solid Waste	4,757	4,908	4,543	5,490
Land and Subdivision Development	14,513	17,165	21,948	16,203
OTHER INCOME				
Investment	7,165	6,875	5,496	4,655
Income (Loss) from Subsidiary (Note 8)	(1,170)	1,712	180	(1,886)
Licences, Fines and Penalties	4,106	5,482	4,936	3,712
Insurance Recoveries	65	157	107	118
Developers Levies	1,252	3,187	1,932	1,548
Proceeds from Sale of Assets (Note 12)		1,227	1,862	4,851
Other	5,317	11,586	11,161	5,908
GOVERNMENT TRANSFERS (Schedule 6)				
Municipal Assistance Grant	875	875	875	1,237
Grants - Federal and Provincial	5,411	8,315	12,193	7,006
Debenture Interest Subsidy	77	19	47	74
Flood Recoveries		2,110		
TOTAL REVENUE	276,668	329,967	298,584	272,673
EXPENDITURES (Schedule 7)				
General Government	77,316	104,681	106,469	84,032
Gas	98,418	116,464	92,489	97,032
Electric	32,535	34,285	30,472	51,746
Water	7,416	8,344	6,880	5,657
Sewer	6,685	7,282	14,849	8,338
Solid Waste	3,435	3,879	4,067	3,393
Land and Subdivision Development	10,243	3,948	5,227	4,229
TOTAL EXPENDITURES	236,048	278,883	260,453	254,427
NET REVENUES	40,620	51,084	38,131	18,246
FINANCING				
Debt Issued	2,894	9,083	13,782	22,488
Debt Repayment	(9,153)	(12,536)	(11,827)	(10,732)
CHANGE IN FUND BALANCE	34,361	47,631	40,086	30,002
FUND BALANCES AT BEGINNING OF YEAR	151,626	151,626	111,540	81,538
FUND BALANCES AT END OF THE YEAR	185,987	199,257	151,626	111,540

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2005
(In thousands of dollars)

	2005	2004	2003
CASH PROVIDED BY (USED IN):			
OPERATIONS			
Net Revenue	\$ 51,084	\$ 38,131	\$ 18,246
Deduct Items Not Affecting Cash:			
(Income) Loss From Subsidiary	(1,712)	(181)	1,886
Change in Non Cash Items:			
Decrease (Increase) in Accounts Receivable	(6,257)	(6,533)	(16,880)
Decrease (Increase) in Inventory for Resale	(2,155)	(2,222)	745
Decrease (Increase) in Deposits and Other Assets	(914)	(1,017)	(127)
Decrease (Increase) in Prepaid Expenses	(134)	(319)	156
Decrease (Increase) in Long Lived Assets	425	(6,068)	(7,885)
Increase (Decrease) in Accounts Payable and Accrued Liabilities	11,437	5,209	(451)
Increase (Decrease) in Other Long-Term Liabilities	5,254	9,681	10,511
NET CASH FROM OPERATIONS	57,028	36,681	6,201
INVESTING			
Short-Term Debt Repayment			(9,984)
Decrease (Increase) in Investments, Loans and Advances	(42,546)	(43,025)	(17,114)
Decrease (Increase) in Restricted Cash and Temporary Investments	(9,478)	788	1,717
Decrease (Increase) in Advances to Subsidiary	1,470	822	9,738
Decrease (Increase) in Inventories	853	(536)	150
NET CASH USED BY INVESTING	(49,701)	(41,951)	(15,493)
FINANCING			
Debt Issued	9,083	13,782	22,488
Debt Repayment	(12,536)	(11,827)	(10,732)
NET CASH FROM (USED BY) FINANCING	(3,453)	1,955	11,756
CHANGE IN CASH	3,874	(3,315)	2,521
CASH AT BEGINNING OF YEAR	(1,684)	1,631	(890)
CASH AT END OF YEAR	\$ 2,190	\$ (1,684)	\$ 1,631
Cash consists of the following:			
Cash and Temporary Investments	\$ 16,965	\$ 5,416	\$ 7,659
Less: Restricted Portion of Cash and Temporary Investments	(14,775)	(5,297)	(6,028)
Bank Indebtedness		(1,803)	
	\$ 2,190	\$ (1,684)	\$ 1,631

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED CAPITAL FUND
SCHEDULE 1
FOR THE YEAR ENDED DECEMBER 31, 2005
(In thousands of dollars)

	2005 BUDGET (Unaudited)	2005	2004	2003
REVENUE				
Government Transfers	\$ 2,498	\$ 5,206	\$ 9,360	\$ 5,486
Developers Levies	1,252	3,187	1,932	981
Proceeds from Sale of Assets		55	1,862	4,851
Other	370	4,218	4,913	1,118
TOTAL REVENUE	4,120	12,666	18,067	12,436
EXPENDITURES				
General Government	11,543	37,192	43,758	26,742
Gas	43,808	54,715	37,354	45,346
Electric	2,316	4,196	3,422	20,978
Water	1,405	3,249	2,046	1,515
Sewer	1,285	1,465	10,609	4,426
Solid Waste	180	427	1,017	224
Land	4	172	5	139
TOTAL EXPENDITURES	60,541	101,416	98,211	99,370
DEFICIENCY OF REVENUE OVER EXPENDITURES	(56,421)	(88,750)	(80,144)	(86,934)
NET INTERFUND TRANSFERS				
Reserve Fund	45,527	47,063	52,733	37,259
Operating Fund	11,118	21,113	29,762	21,737
DEBT TRANSFERS				
Debt Issued	2,894	9,083	13,782	22,488
CHANGE IN CAPITAL FUND		(11,491)	16,133	(5,450)
CAPITAL FUND AT BEGINNING OF YEAR	24,375	24,375	8,242	13,692
CAPITAL FUND AT END OF YEAR	\$ 24,375	\$ 12,884	\$ 24,375	\$ 8,242

The accompanying notes are an integral part of these financial statements.

**CONSOLIDATED OPERATING FUND
SCHEDULE 2
FOR THE YEAR ENDED DECEMBER 31, 2005**
(In thousands of dollars)

	2005 BUDGET (Unaudited)	2005	2004	2003
REVENUE				
NET TAXES (Schedule 5)	\$ 28,439	\$ 28,487	\$ 25,620	\$ 22,537
SALE OF SERVICES				
General Government	5,279	6,029	5,632	5,220
Gas	128,252	161,387	129,817	129,178
Electric	57,335	55,856	58,399	53,687
Water	8,017	7,636	7,540	7,493
Sewer	6,978	6,954	6,296	5,642
Solid Waste	4,757	4,908	4,543	5,490
Land and Subdivision Development	14,513	17,165	22,081	16,203
OTHER INCOME				
Investment Income	7,165	6,875	5,496	4,655
Income (Loss) from Subsidiary (Note 9)	(1,170)	1,712	180	(1,886)
Licences, Fines and Penalties	4,106	5,482	4,804	3,712
Insurance Recovery	65	157	107	118
Other	4,947	8,538	6,250	4,790
GOVERNMENT TRANSFERS				
Municipal Assistance Grant	875	875	875	1,237
Grants - Federal and Provincial	2,913	3,112	2,832	2,087
Debenture Interest Subsidy	77	19	47	74
Flood Assistance		2,108		
TOTAL REVENUE	272,548	317,300	280,519	260,237
EXPENDITURES				
General Government	65,773	67,471	62,737	57,289
Gas	51,498	51,467	55,135	51,691
Electric	30,219	30,089	27,051	29,458
Water	6,011	5,095	4,833	4,141
Sewer	5,400	5,817	4,241	4,220
Solid Waste	3,255	3,452	3,050	2,903
Land and Subdivision Development	10,239	14,075	5,197	5,355
TOTAL EXPENDITURES	172,395	177,466	162,244	155,057
EXCESS OF REVENUE OVER EXPENDITURES	100,153	139,834	118,275	105,180
NET INTERFUND TRANSFERS				
Capital Fund	(11,118)	(21,113)	(29,762)	(21,737)
Debt Repayment	(9,153)	(12,536)	(11,827)	(10,732)
Reserve Fund	(86,400)	(104,181)	(74,881)	(81,228)
TOTAL NET INTERFUND TRANSFERS	(97,518)	(137,830)	(116,470)	(113,697)
CHANGE IN OPERATING FUND	2,635	2,004	1,805	(8,517)
OPERATING FUND AT BEGINNING OF YEAR	27,450	27,450	25,645	34,162
OPERATING FUND AT END OF YEAR	\$ 30,085	\$ 29,454	\$ 27,450	\$ 25,645

The accompanying notes are an integral part of these financial statements.

**CONSOLIDATED RESERVE FUND
SCHEDULE 3
FOR THE YEAR ENDED DECEMBER 31, 2005**
(In thousands of dollars)

	2005 BUDGET (Unaudited)	2005	2004	2003
INTERFUND TRANSFERS				
Operating Fund Transfer	\$ 86,400	\$ 104,181	\$ 74,881	\$ 81,228
Capital Fund Transfer	(45,527)	(47,063)	(52,733)	(37,259)
CHANGE IN RESERVE FUND	40,873	57,118	22,148	43,969
RESERVE FUND AT BEGINNING OF YEAR	99,801	99,801	77,653	33,684
RESERVE FUND AT END OF YEAR (Note 18)	\$ 140,674	\$ 156,919	\$ 99,801	\$ 77,653

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED SCHEDULE OF EQUITY IN CAPITAL ASSETS

SCHEDULE 4

FOR THE YEAR ENDED DECEMBER 31, 2005

(In thousands of dollars)

	2005 BUDGET (Unaudited)	2005	2004	2003
ACQUISITION OF CAPITAL ASSETS				
General Government	\$ 8,886	\$ 35,251	\$ 41,889	\$ 24,346
Gas	43,808	54,505	37,047	44,883
Electric	2,316	4,196	3,422	20,978
Water	1,405	3,249	2,046	1,515
Sewer	1,285	1,465	10,609	4,426
Solid Waste	180	427	467	224
Land and Subdivision Development	4	172	5	139
	57,884	99,265	95,485	96,511
DISPOSAL OF CAPITAL ASSETS				
General Government		(12,601)	(2,252)	(6,907)
Gas		(60)	(1,967)	(2,551)
Electric		(750)		(57)
Water		(1)		
Solid Waste			(18)	
Land and Subdivision Development				(454)
		(13,412)	(4,237)	(9,969)
AMORTIZATION OF UTILITIES ASSETS (Note 10)				
Gas	(33,005)	(35,720)	(31,465)	(29,946)
Electric	(9,388)	(9,143)	(9,060)	(7,683)
Water	(2,105)	(1,717)	(1,692)	(1,664)
Sewer	(1,719)	(1,783)	(1,690)	(1,446)
Solid Waste	(292)	(268)	(243)	(220)
Land and Subdivision Development	(4)		(4)	
	(46,513)	(48,631)	(44,154)	(40,959)
CAPITAL FINANCING				
Debt Issued	(2,894)	(9,083)	(13,782)	(22,488)
Debt Repayment	9,153	12,534	11,827	10,732
	6,259	3,451	(1,955)	(11,756)
CHANGE IN EQUITY BALANCE	17,630	40,673	45,139	33,827
EQUITY IN CAPITAL ASSETS AT BEGINNING OF YEAR	709,114	709,114	663,975	630,148
EQUITY IN CAPITAL ASSETS AT END OF YEAR	<u>\$ 726,744</u>	<u>\$ 749,787</u>	<u>\$ 709,114</u>	<u>\$ 663,975</u>

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED TAXES LEVIED
SCHEDULE 5
FOR THE YEAR ENDED DECEMBER 31, 2005
(In thousands of dollars)

	2005 BUDGET (Unaudited)	2005	2004	2003
TAXATION				
Real Property Taxes	\$ 44,634	\$ 44,705	\$ 41,198	\$ 37,366
Linear Property Taxes	2,800	2,807	2,825	2,252
Government Grants in Lieu of Property Taxes	1,200	1,187	1,230	1,258
Special Assessments and Local Improvements	365	362	340	394
	<u>48,999</u>	<u>49,061</u>	<u>45,593</u>	<u>41,270</u>
REQUISITIONS				
Alberta School Foundation	15,491	15,491	15,268	14,267
Catholic Board of Education	3,029	3,029	2,891	2,714
Cypress View Foundation	395	398	234	226
Medicine Hat Public Library	1,556	1,556	1,480	1,433
Business Exchange Levies	89	100	100	93
	<u>20,560</u>	<u>20,574</u>	<u>19,973</u>	<u>18,733</u>
NET TAXES	\$ 28,439	\$ 28,487	\$ 25,620	\$ 22,537

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED GOVERNMENT TRANSFERS
SCHEDULE 6
FOR THE YEAR ENDED DECEMBER 31, 2005
(In thousands of dollars)

	2005 BUDGET (Unaudited)	2005	2004	2003
FEDERAL TRANSFERS				
Shared-Cost Agreements and Grants	\$	\$ 214	\$ 1,636	\$ 426
		214	1,636	426
PROVINCIAL TRANSFERS				
Municipal Assistance Grant	875	875	875	1,237
Police Enforcement Grant	820	872	820	
Shared-Cost Agreements and Grants	4,649	7,229	9,738	6,579
Flood Assistance		2,110		
Debenture Interest Subsidy	19	19	46	75
	6,363	11,105	11,479	7,891
TOTAL GOVERNMENT TRANSFERS	\$ 6,363	\$ 11,319	\$ 13,115	\$ 8,317

CONSOLIDATED EXPENDITURES BY OBJECT
SCHEDULE 7
FOR THE YEAR ENDED DECEMBER 31, 2005
(In thousands of dollars)

	2005 BUDGET (Unaudited)	2005	2004	2003
EXPENDITURES				
Salaries, Wages and Benefits	\$ 69,447	\$ 69,906	\$ 64,902	\$ 59,318
Contracted and General Services	28,506	31,199	27,946	27,428
Materials, Goods and Utilities	39,960	35,214	33,631	32,306
Provisions for Allowances	252	23	232	195
Bank Charges and Short-Term Interest	38	74	44	68
Interest on Long-Term Debt	11,921	10,435	10,379	10,110
Capital Assets Acquired	58,301	99,475	95,484	96,512
Other Operating Expenditures	24,358	30,039	24,505	25,411
Grants and Other Transfers	609	578	603	221
Other Capital Expenditures	2,656	1,940	2,727	2,858
TOTAL EXPENDITURES	\$ 236,048	\$ 278,883	\$ 260,453	\$ 254,427

The accompanying notes are an integral part of these financial statements.

NOTES

FOR THE YEAR ENDED DECEMBER 31, 2005

(In Thousands of Dollars)

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the City of Medicine Hat (the "City") are the representations of management, prepared in accordance with generally accepted accounting principles for local governments established by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies adopted by the City of Medicine Hat are as follows:

(A) REPORTING ENTITY

The consolidated financial statements reflect the assets, liabilities, revenues and expenditures, changes in fund balances and changes in financial position of the reporting entity. This entity, except for government business enterprises which are accounted for by the modified equity basis of accounting, includes all of the organizations that are owned or controlled by the municipality and are, therefore, accountable to City Council for the administration of their financial affairs and resources. They include the following:

1. City General - activities associated with the provision of conventional municipal services including General Administrative Services, Corporate Services (Finance, Human Resources, Information and Computer Services, Corporate Asset Management), Public Services (Fire, Police, Disaster Services, Community Development, Parks and Outdoor Recreation, and 911 Communications), and Infrastructure and Development (Municipal Works, Municipal Engineering, Planning and Building, and Environmental Utilities).
2. Energy Division – self-supporting activities which provide Electricity Generation and Distribution and Natural Gas Production and Distribution. Land and Subdivision Development operations are also treated as a utility for financial statement purposes.

School administration is completely independent of City Council and is subject to control by the Provincial Government pursuant to the provisions of the School Act. The only relationship between the School Boards and the City is that the City is obligated to provide funds raised by taxes deemed necessary by the Province.

The schedule of taxes levied includes operating requisitions for the Alberta School Foundation, Catholic Board of Education, Cypress View Foundation, and amounts collected for the City Centre Development Agency that are not part of the municipal reporting entity.

The statements exclude trust assets that are administered for the benefit of external parties. A schedule of these trust assets is included in Note 19.

Interdepartmental and organizational transactions and balances are eliminated.

Allied Oil and Gas Corp., a wholly-owned subsidiary of the City, is accounted for using the modified equity basis, consistent with generally accepted accounting principles for government enterprises.

(B) FUND ACCOUNTING

Municipal funds for General, Environmental Utilities, Energy Division, and Land and Subdivision Development consist of the operating, capital and reserve funds. Proceeds from sales of land are recorded as operating fund revenues.

(C) BASIS OF ACCOUNTING

1. Revenues

The accrual basis of accounting recognizes revenue in the period in which the transactions or events occurred that gave rise to the revenues.

Funds from external parties and earnings thereon restricted by agreement or legislation are accounted for as deferred revenue until used for the purpose specified.

NOTES

FOR THE YEAR ENDED DECEMBER 31, 2005

(In Thousands of Dollars)

2. Expenditures

Expenditures are recognized in the period the goods and services are acquired and a liability is incurred or transfers are due, with the exception of pension expenditures as disclosed in Note 1(H).

(D) GOVERNMENT TRANSFERS

Government transfers are recognized in the consolidated financial statements as revenues in the period that the events giving rise to the transfer occurred, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

(E) INVESTMENTS

Portfolio investments are comprised of investments in qualifying instruments as defined in the City's Investment Policy #0110. Portfolio investments purchased by the City of Medicine Hat are recorded at cost. The cost of investments includes the applicable amortization of premiums and discounts using the present value amortization method. When there has been a loss in value that is other than a temporary decline, the respective investment is written down to recognize the loss.

Investments in government business enterprises are accounted for using the modified equity basis of accounting. Under this basis, the accounting principles of the government business enterprises are not adjusted to conform to the City's accounting policies and inter-organizational transactions and balances are not eliminated.

(F) INVENTORIES

Inventories of materials and supplies, inventories for resale and gas in storage are valued at the lower of cost or net realizable value with cost determined by the average cost method.

(G) LAND FOR RESALE

Land held for resale is recorded at the lower of cost or net realizable value. The cost of land held for resale includes costs related to land acquisition and improvements required to prepare the land for servicing such as clearing, stripping and levelling charges. Related development costs incurred to provide infrastructure such as water, sewer, gas, electric, roads, sidewalks and street lighting are recorded as capital assets under their respective function.

(H) PENSION EXPENDITURE

The City participates in a multi-employer defined benefit pension plan wherein contributions for current and past service pension benefits are recorded as expenditures in the year in which they become due. The plan is accounted for as a defined contribution plan.

(I) CAPITAL ASSETS

1. The City has valued General Fund capital assets purchased prior to December 31, 1978, at the net cost to the City and assets purchased and developed subsequent to that date at full cost.
2. Prior to January 1, 1989, all capital expenditures for major repair and maintenance projects were recorded as increases to capital assets. Since that date, capital expenditures of this nature are expensed in the year the expenditure is incurred. Major repairs and maintenance costs expensed in 2005 - \$1,940 (2004 \$2,727).

Capital Assets are reported as expenditures in the period they are acquired.

Capital Assets are reported at cost except for donated assets, which are recorded at estimated fair market value.

NOTES

FOR THE YEAR ENDED DECEMBER 31, 2005

(In Thousands of Dollars)

The City follows the full cost method of accounting for its petroleum and natural gas properties, whereby all costs associated with acquisition and development of petroleum and natural gas reserves are capitalized. Such costs include those related to lease acquisition, geological and geophysical activities, cost of drilling both productive and non-productive wells, equipment cost and technical consulting costs directly related to development. The City does not capitalize interest or administrative costs.

Proceeds from the disposition of petroleum and natural gas properties are accounted for as adjustments to the net book value of resource properties, with no gain or loss recognized, unless the disposition would significantly alter the rate of depletion.

Government contributions for the acquisition of capital assets are recorded as a revenue source in the Consolidated Statement of Financial Activities and Consolidated Capital Fund - Schedule 1, and do not reduce the related capital assets costs.

Capital assets for municipal purposes are not depreciated.

(J) PREPAID LOCAL IMPROVEMENT CHARGES

Construction and borrowing costs associated with local improvement projects are recovered through annual special assessments during the period of the related borrowings. These levies are collectable from property owners for work performed by the municipality.

(K) DEPRECIATION

Capital assets in the Electric Utility, Water Utility, Sewer Utility, Solid Waste Utility, Land, and non-resource plant, property and equipment in the Gas Utility are depreciated on a straight line basis over their estimated useful lives. Depreciation is not charged to operations but Plant, Property and Equipment and Equity in Capital Assets have been reduced to reflect the depreciated balance of capital assets. The following rates have been used for this calculation:

Engineering Structures	2.0% to 5.0%
Buildings	2.5% to 3.0%
Machinery, Equipment and Furnishings	5.0% to 20.0%

(L) DEPLETION

Oil and gas properties are depleted following the CICA Accounting Guideline AcG-16 "Oil and Gas Accounting – Full Cost". Capitalized costs are depreciated on the unit-of-production method based on estimated proven reserves as determined by external engineers. For purposes of this calculation, oil is converted to gas on an energy equivalent basis (1 Bbl: 6.29 Mcf). The costs of unproven properties are excluded from this calculation until proven reserves are established or until impairment occurs.

This guideline requires the cost centres be tested for recoverability using discounted future cash flows from proven reserves which are determined by using forward indexed prices. When the carrying amount of a cost centre is not recoverable, the cost centre would be written down to its fair value. Fair values are estimated using accepted present value techniques which incorporate risks and other uncertainties when determining expected cash flows. No write down was required for 2005.

(M) ALLOWANCES

Allowances for financial asset valuations are netted against the related asset. Increases in allowances are recorded as an expenditure.

(N) OPERATING FUND

The operating fund represents the amounts available to offset future operational revenue requirements.

NOTES

FOR THE YEAR ENDED DECEMBER 31, 2005

(In Thousands of Dollars)

(O) CAPITAL FUND

The Capital fund represents amounts available to finance capital projects.

(P) RESERVES FUND

Reserves are established at the discretion of Council to set aside funds for future operating and capital expenditures. Transfers to and/or from reserves related to capital and operating fund activities are reflected on the Consolidated Schedules for the Capital, Operating and Reserve Funds.

(Q) EQUITY IN CAPITAL ASSETS

Equity in Capital Assets represents the net investment in total capital assets, after deducting the portion financed through long-term debt.

(R) JOINT VENTURE ACCOUNTING

Some of the City's production activities related to oil and gas are contracted with other companies. These statements reflect only the City's proportionate interest in such activities.

(S) USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles for municipal governments established by the Canadian Institute of Chartered Accountants requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures during the period. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

Amounts recorded for depletion and amounts used for the ceiling test calculations, are based on estimates of oil and natural gas reserves and future costs required to develop those reserves. The City's reserve estimates are reviewed every three years, or upon major acquisition, by independent engineering firms. The last reserve analysis was carried out as of December 31, 2004 with an update for prices as at December 31, 2005. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact on the financial statements of future periods may be material.

(T) OVER-LEVIES AND UNDER-LEVIES

Over-levies and under-levies arise from the difference between the actual levy made to cover each requisition and the actual amount requisitioned.

If the actual levy exceeds the requisition, the over-levy is accrued as a liability and property tax revenue is reduced. Where the actual levy is less than the requisition amount, the under-levy is accrued as a receivable and as property taxes.

Requisition tax rates in the subsequent year are adjusted for any over-levies or under-levies of the prior year.

(U) ASSET RETIREMENT OBLIGATION – PETROLEUM AND NATURAL GAS SITES

The City records the fair value of its petroleum and natural gas asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived petroleum and natural gas assets that result from the acquisition, construction, development, and normal use of petroleum and natural gas assets. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived assets and depleted and depreciated using the unit of production method over estimated gross proven reserves. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

NOTES

FOR THE YEAR ENDED DECEMBER 31, 2005

(In Thousands of Dollars)

(V) LANDFILL CLOSURE AND POST-CLOSURE LIABILITY

Pursuant to the Alberta Environmental Protection and Enhancement Act, the City is required to fund the closure of its landfill site and provide for post-closure care of the facility. Closure and post-closure activities include the final clay cover, and landscaping, as well as surface and ground water monitoring, leachate control, and visual inspection. This requirement is being provided for, over the estimated remaining life of the landfill site based on usage.

NOTE 2: CASH AND TEMPORARY INVESTMENTS

	2005	2004
Cash	\$ 2,190	\$ 119
Temporary Investments	14,775	5,297
TOTAL CASH AND TEMPORARY INVESTMENTS	\$ 16,965	\$ 5,416

The temporary investments represent a restricted amount for the Alberta Cities Transportation Program and Alberta Municipal Infrastructure project, held exclusively for eligible capital projects.

NOTE 3: ACCOUNTS RECEIVABLE

(A) TAXES AND BUSINESS IMPROVEMENTS LEVIES RECEIVABLE

	2005	2004
Current Taxes Receivable	\$ 417	\$ 598
Arrears Taxes Receivable	152	170
City Centre Development Agency	2	5
Less: Allowance for Tax Adjustments	(118)	(122)
SUB-TOTAL	\$ 453	\$ 651

(B) ACCOUNTS RECEIVABLE

	2005	2004
Trade Accounts Receivable	\$ 39,274	\$ 33,277
Less: Allowance for Doubtful Accounts	(278)	(736)
SUB-TOTAL	\$ 38,996	\$ 32,541
TOTAL	\$ 39,449	\$ 33,192

NOTES

FOR THE YEAR ENDED DECEMBER 31, 2005

(In Thousands of Dollars)

NOTE 4: ADVANCES TO SUBSIDIARY

	2005	2004
Unsecured, non-interest bearing advances with no fixed terms of repayment	\$ 131	\$ 101
Unsecured note, bearing interest at prime plus 1% due on demand	18,847	20,347
TOTAL	\$ 18,978	\$ 20,448

NOTE 5: INVENTORIES FOR RESALE

	2005	2004
Concessions	\$ 144	\$ 109
Gas in Storage	3,853	3,381
Land and Property	18,180	16,532
TOTAL	\$ 22,177	\$ 20,022

NOTE 6: INVESTMENTS, LOANS AND ADVANCES

	2005		2004	
	Cost	Market Value	Cost	Market Value
Federal Government and Agencies	\$ 19,948	\$ 20,716	\$ 16,777	\$ 17,452
Provincial Government and Agencies	62,211	63,112	40,367	41,653
Canadian Banks	37,968	38,130	14,041	14,618
Others	58,723	58,652	65,116	65,216
TOTAL	\$ 178,850	\$ 180,610	\$ 136,301	\$ 138,939

These investments yield interest rates from 2.87 per cent to 7.12 per cent and mature in periods 2006 through 2027. The investments have an average expected yield of 4.06 per cent and an average term of 4.49 years to maturity.

NOTE 7: DEPOSITS AND OTHER ASSETS

	2005	2004
Tax Requisition Over Levies	\$ 167	\$ 176
Postage	4	7
Refundable Containers	48	36
Operating Deposits	2,083	1,328
Electric Reels	128	174
Gas Royalty Deposits	792	587
TOTAL	\$ 3,222	\$ 2,308

NOTES

FOR THE YEAR ENDED DECEMBER 31, 2005

(In Thousands of Dollars)

NOTE 8: SUBSIDIARY OPERATIONS

The following table provides condensed supplementary financial information reported separately by Allied Oil and Gas Corp. at December 31.

	2005	2004
Financial Position		
Current Assets	\$ 7,304	\$ 7,144
Future Income Tax Asset	1,404	545
Resource Properties	6,559	7,391
Total Assets	15,267	15,080
Current Liabilities	5,407	5,433
Advances from City of Medicine Hat	18,847	20,347
Asset Retirement Obligation	480	479
Total Liabilities	24,734	26,259
Net Assets (Liabilities)	\$ (9,467)	\$ (11,179)

Net Liabilities are comprised of a deficit of \$8,092, share capital of \$6 and deficit on Related Company Transactions of \$1,381 (2004 – a deficit of \$9,804, share capital of \$6 and a deficit on Related Company Transaction of \$1,381).

	2005	2004
Results of Operations		
Revenues	\$ 5,630	\$ 4,780
Operating Expenses	3,164	3,319
Cash Flow from Operations	2,466	1,461
Depletion and Accretion	1,404	1,503
Net Income (Loss) before Income Tax	1,062	(42)
Income Tax Recovery	650	222
Net Income	1,712	180
Deficit, Beginning of Year	(9,804)	(9,984)
Share Capital	6	6
Investment (Loss) in Subsidiary	\$ (8,086)	\$ (9,798)

The operation of this government business enterprise has been accounted for using the modified equity method of accounting. These financial statements include the net earnings of Allied Oil and Gas Corp. since the acquisition date.

NOTES
FOR THE YEAR ENDED DECEMBER 31, 2005
(In Thousands of Dollars)

NOTE 9: PREPAID EXPENSES

	2005	2004
Prepaid Insurance	\$ 956	\$ 803
Prepaid Miscellaneous Expenses	112	131
TOTAL	\$ 1,068	\$ 934

NOTE 10: CAPITAL ASSETS

	2005 Cost	Accumulated Depreciation	2005 Book Value	2004 Book Value
Land	\$ 13,733	\$ -	\$ 13,733	\$ 14,366
Buildings	146,906	4,199	142,707	123,660
Engineering Structures	566,254	139,977	426,277	396,643
Gas and Oil Properties	588,496	326,548	261,948	266,371
Machinery, Equipment and Furnishings	27,972	10,414	17,558	27,483
Vehicles	42,315		42,315	38,795
TOTAL	\$ 1,385,676	\$ 481,138	\$ 904,538	\$ 867,318

During 2005, the City disposed of Gas Properties and recorded proceeds of \$55 for this sale. The Electric Utility disposed of #9 Combustion Turbine and recorded a gain on sale of assets of \$422 as the result of this sale.

Annual depletion and depreciation amounts reflected in Capital Assets and Equity in Capital Assets are as follows:

Buildings	\$ 289	\$ 275
Engineering Structures	12,830	12,494
Gas and Oil Properties	34,584	30,429
Machinery, Equipment and Furnishings	928	936
TOTAL DEPRECIATION AND DEPLETION	\$ 48,631	\$ 44,134

NOTE 11: ACCRUED LIABILITIES

	2005	2004
Accrued Wages and Salaries	\$ 3,085	\$ 2,081
Vacation Pay	3,172	3,033
Accrued Interest on Long-Term Debt	3,282	3,506
Deposits	890	752
Deferred Revenue	3,898	3,527
Deferred Charges	3,597	3,454
Accrued Royalties	8,505	5,678
Alberta Municipal Infrastructure Program	10,346	
Alberta Cities Transportation Program	4,428	5,297
Other Payables	2,451	1,780
TOTAL	\$ 43,654	\$ 29,108

NOTES

FOR THE YEAR ENDED DECEMBER 31, 2005

(In Thousands of Dollars)

NOTE 12: SHORT-TERM DEBT

A Municipal Revolving Line of Credit (Variable Rate or Guaranteed Note) is available to the City up to a maximum of \$5,000. The Guaranteed Notes are secured by Bylaw 3394.

A Variable Rate Line of Credit under this Municipal Revolving Line of Credit is available at a rate of Prime less 0.25 per cent. This Variable Rate Line of Credit is secured by Bylaw 3394 and a Demand Promissory Note.

At December 31 2005, no amounts were outstanding on these facilities.

NOTE 13: LONG-TERM DEBT

	2005	2004
(A) Tax Supported	\$ 28,324	\$ 27,388
Utilities		
- Electric	63,333	65,269
- Gas	15,530	18,930
- Water	18,088	24,254
- Sewer	27,649	20,663
- Solid Waste	1,827	1,699
Total Utilities	126,427	130,815
TOTAL	\$ 154,751	\$ 158,203

	2005	2004
Comprised of:		
- Alberta Capital Finance Authority	\$ 154,481	\$ 157,927
- Other Long-Term Debt	270	276
TOTAL	\$ 154,751	\$ 158,203

(B) DEBT PER CAPITA (not in thousands of dollars)

	2005	2004
Tax Supported Debentures	\$ 505	\$ 534
Utilities	2,256	2,553
TOTAL	\$ 2,761	\$ 3,087

Debt per capita is based on the official census of 56,048 effective July 1, 2005 (2004-51,249)

(C) Expected future interest and principal payments are as follows:

	Principal	Interest
2006	12,638	10,099
2007	12,823	9,229
2008	13,381	8,378
2009	13,536	7,482
2010	9,438	6,588
2011-2027	92,935	32,657
TOTAL	\$ 154,751	\$ 74,433

NOTES

FOR THE YEAR ENDED DECEMBER 31, 2005

(In Thousands of Dollars)

The debentures mature in annual amounts to the year 2027 and interest is payable at rates ranging from 3.405 per cent to 12.0 per cent per annum before Provincial Subsidy, and mature in periods 2005 through 2027. The average annual interest rate is 6.48 per cent for 2005 (6.68 per cent for 2004). For qualifying debentures, the Province of Alberta rebates 60 per cent of interest in excess of eight per cent, nine per cent and 11 per cent to a maximum annual rate of 12.5 per cent depending on the date borrowed. Debenture debt is issued on the credit and security of the City of Medicine Hat.

Interest on long-term debt paid in 2005 was \$10,660 (2004-\$10,776).

- (D) The Minister of Municipal Affairs has prescribed total debt and debt servicing limits for municipalities in the province. The debt limit is calculated based upon two times revenue, and the debt servicing limit is based upon 0.35 times revenue. Included in the Actual Debt calculation are loans outstanding as well as Loan Guarantees.

	2005	2004
Total Debt Limit	\$ 659,156	\$ 581,843
Actual Debt (Long- and Short-Term Debt)	155,602	159,054
AMOUNT UNDER LIMIT	\$ 503,554	\$ 422,789
Debt Servicing Limit	\$ 115,352	\$ 101,822
Actual Debt Servicing (Long- and Short-Term Debt)	23,694	23,002
AMOUNT UNDER LIMIT	\$ 91,658	\$ 78,820

NOTE 14: OTHER LONG-TERM DEBT

The City of Medicine Hat owes Palliser Health Authority \$270 (2003-\$276) for the construction of ambulance facilities at the Medicine Hat Regional Hospital. The debt matures in 2011 and interest is payable at 10.625 per cent. Annual payments are \$58. This debt is unsecured. The City and Palliser Health Authority are currently negotiating the sale of this asset to the Health Authority.

NOTE 15: OTHER LONG-TERM LIABILITIES

(A)	2005	2004
Offsite Contributions	\$ 5,175	\$ 4,089
Asset Retirement Obligation - Gas	36,568	32,581
Employee Retirement Benefits Liability	2,635	2,534
Sanitary Landfill - Site Abandonment and Restoration	161	81
TOTAL OTHER LONG-TERM LIABILITIES	\$ 44,539	\$ 39,285

- (B) The accrued liability for closure and post-closure costs of the City's Landfill is recognized over the life of the cells, using the net present value of the total estimated costs of closure and post-closure care, prorated on the basis of the current air space utilized (in cubic metres), over the total estimated air space of the site. The net present value of the estimated closure and post-closure costs was calculated using a rate of return equal to 4.07 per cent assuming inflation of 2.0 per cent.

NOTES

FOR THE YEAR ENDED DECEMBER 31, 2005

(In Thousands of Dollars)

- (C) The following summarizes the total net present value for the estimated costs of Sanitary Landfill closure and post-closure care:

	2005	2004
Estimated Closure Costs	\$ 5,000	\$ 950
Estimated Post-Closure Costs	780	155
Estimated Total Costs	\$ 5,780	\$ 1,105
Estimated Capacity remaining %	60%	62%
Portion of Total Liability remaining to be recognized	\$ 5,619	\$ 1,024
Estimated Capacity used %	40%	38%
ACCRUED LIABILITY PORTION	\$ 161	\$ 81

The site has approximately 2,723,000 cubic metres of air space remaining. With an estimated annual utilization of 64,338 cubic metres, increasing at approximately 3.5 per cent per year, the landfill has approximately 25 years of life remaining. It is estimated that post-closure care should be required for a period of 25 years. The City has not designated assets for settling closure or post-closure liabilities.

NOTE 16: OPERATING FUND

The Operating Fund balance as shown on the Consolidated Statement of Financial Position represents accumulated surpluses (deficits) from operations, which have not been designated by City Council for any specific use.

The General Fund policy directs that, special one-time grants and any surplus in the General Operating Fund, not required in order to maintain the operating fund target balance of seven per cent of the prior year's budgeted gross expenditures, be transferred to the Infrastructure Reserve. Included in the 2005 transfer to the Infrastructure Reserve of \$7,047 is \$2,552 in surplus funds, which were in excess of the target balance requirement.

The Electric Operating Fund policy directs that surplus in excess of seven per cent of the prior year's budgeted gross expenditures will be transferred to the Electric Facility and Equipment Reserve at the end of the current year. In 2005 the Operating surplus was \$4,608; \$2,646 was transferred to the Electric reserve.

With respect to the Gas Utility, policy directs that surplus in excess of seven per cent of the prior year's budgeted gross expenditures be transferred to the Gas Depletion Reserve at the end of the current year. In 2005 the Gas Utility reported an excess surplus of \$92,673, which was transferred to the Gas Depletion Reserve.

OPERATING FUND BALANCES	2005	2004
General Government	\$ 6,301	\$ 5,601
Gas	5,253	6,433
Electric	4,795	2,832
Water	(1,680)	(1354)
Sewer	(1,794)	(1760)
Solid Waste	836	1,227
Land	15,743	14,471
TOTAL	\$ 29,454	\$ 27,450

NOTES

FOR THE YEAR ENDED DECEMBER 31, 2005

(In Thousands of Dollars)

NOTE 17: CAPITAL FUND

CAPITAL FUND BALANCES	2005	2004
General Government	\$ 3,955	\$ 3,298
Gas	7,935	21,959
Electric	1,579	2,146
Water	(1,067)	110
Sewer	424	(2,586)
Solid Waste	58	(552)
TOTAL	\$ 12,884	\$ 24,375

NOTE 18: RESERVES

	Balance Jan 1/2005	2005 Additions	2005 Reductions	Balance Dec 31/ 2005
Employee Development	\$ 409	\$ 106		\$ 515
Victim Assistance	13			13
Second Street Properties	84			84
Fleet Replacement	3,944	2,940	1,829	5,055
Infrastructure	6,390	7,390	5,205	8,575
Esplanade	11,172	261	11,433	
Natures Best Reserve		1,000	59	941
Electric Facility and Equipment	14,210	2,646		16,856
Gas Depletion Reserve	96,738	90,961	35,851	151,848
SUB TOTAL	132,960	105,304	54,377	183,887
Equity (Deficit) in Subsidiary	(9,804)	1,712		(8,092)
Internal Loan Contra Reserve	(23,355)	(490)	(5,175)	(18,876)
TOTAL RESERVES	\$ 99,801	\$ 106,526	\$ 49,202	\$ 156,919

NOTE 19: TRUST FUNDS

The City of Medicine Hat records as "Funds Held in Trust" all monies received on behalf of third parties. These monies are controlled, invested and accounted for in accordance with the terms of the trust arrangements. Trust investments are temporary investments in money market instruments such as term deposits, treasury bills, and commercial paper. Investments are recorded at the lower of original cost or market value. The cost of these investments at December 31, 2005 is \$ 1,901 (2004 - \$2,094). Trust investments and liabilities are not included in the City's statements.

A summary of Trust fund activities by the City of Medicine Hat are as follows:

NOTES

FOR THE YEAR ENDED DECEMBER 31, 2005

(In Thousands of Dollars)

	Balance Jan 1/2005	Additions	Interest Earnings	Reductions	Balance Dec 31/2005
Cemetery - Perpetual Care	\$ 1,353	\$ 103	\$ 58	\$ 192	\$ 1,322
Seniors Foundation	19	47	1	20	47
Police Department Exhibit Recovery	14	2			16
Museum Building Exhibition	27	7	1	35	
Art Gallery Acquisition	12			4	8
Donna MacLean Museum Trusts	13	1	1		15
Museum Special Projects	41	40	1	82	
Pitch Trust	2				2
Medicine Hat Senior Sport and Culture	139				139
Bell West	193		5		198
Saamis Heights Town Centre Park	176	46	5	133	94
Centennial Grant		158		157	1
Veiner Centre Legacy Mural		15		6	9
2008 Alberta Summer Games	50			50	
Northlands Waterline Warranty	49		1		50
TOTAL TRUST FUNDS	\$ 2,088	\$ 419	\$ 73	\$ 679	\$ 1,901

NOTE 20: SALARY AND BENEFITS DISCLOSURE

Disclosure of salaries and benefits for municipal officials, the chief administrative office and designated officers as required by provincial regulation 313/2000 is as follows:

	Salary	Benefits and Allowances	Total 2005	Total 2004	Total 2003
Mayor Vallely	\$48	\$26	\$74	\$78	\$77
Councillors:					
Cocks, W.	18	15	33	31	31
Craven, W.	16	13		29	31
Friesen, J.	18	15	33	34	31
Dumanowski, R.	18	14	32	31	29
Hamill, J.	18	15	33	32	30
Roset, D.	16	15		31	33
Smith, C.	18	14	32	32	30
Speers, H.	18	16	34	34	31
Hirsch, D.	18	15	33	4	
Kelly, G.	18	13	31	3	
Chief Administrative Officer	168	33	201	192	182
Designated Officers (6)	733	82	748	767	702

(1) Salary includes regular base pay.

(2) Benefits and Allowances includes employer's share of all employee benefits and contributions or payments made on behalf of employees including retirement pension, Canada Pension Plan, Employment Insurance, health care, dental coverage, vision coverage, group life insurance, accidental disability and dismemberment insurance, long- and short-term disability plans, expense allowances, car allowances, per diem payments, gross honoraria, travel allowances and professional memberships and tuitions.

NOTES

FOR THE YEAR ENDED DECEMBER 31, 2005

(In Thousands of Dollars)

NOTE 21: LOCAL AUTHORITIES PENSION PLAN

Employees of the City of Medicine Hat, with the exception of Police Officers, participate in the Local Authorities Pension Plan (LAPP), which is one of the plans covered by the Public Sector Pension Plans Act. LAPP serves about 133,000 people and 389 employers. The Police Officers are members of the Special Forces Pension Plan (SFPP). The Plans are financed by employer and employee contributions and investment earnings of the LAPP and SFPP Fund.

The City of Medicine Hat is required to make current service contributions to the Local Authorities Pension Plan of 5.025 per cent of pensionable earnings up to the Canada Pension Plan Year's Maximum Pensionable Earnings and 6.9 per cent for the excess. With regard to the Special Forces Pension Plan, the City of Medicine Hat is required to make current service contributions of 9.8 per cent.

Total current service contributions by the City of Medicine Hat to LAPP and SFPP in 2005 were \$4,236 (2004 – \$3,014). Total current service contributions by the employees for 2005 were \$3,737 (2004 – \$3,208).

At December 31, 2004 LAPP disclosed an actuarial deficit of \$1,288.9 million (2003 – \$1,410.9 million). At December 31, 2004 SFPP disclosed an actuarial deficit of \$208,353 (2003 – \$240,283).

NOTE 22: EMPLOYEE BENEFIT OBLIGATIONS

The City has a defined benefit life insurance plan covering substantially all of its employees. The plan is unfunded. The most recent actuarial accounting valuation for the plan was performed for the year-ended December 31, 2004. Information about the plan is as follows:

	2005	2004
Accrued Benefit Obligation		
Balance, Beginning of Year	\$ 2,534	\$ 2,321
Current Service Cost	75	66
Interest Cost	144	138
Benefits Paid	(118)	(119)
Unrecognized Actuarial (Gains) Losses		128
Balance, End of Year, Benefit Plan Deficit	\$ 2,635	\$ 2,534

The significant actuarial assumptions adopted in measuring the City's accrued benefit obligation are as follows:

	2005	2004
Discount Rate	5.75%	5.75%
Rate of Compensation Increases	3%	3%
Expected Average Remaining Service Life	9.0 Years	9.0 years

NOTE 23: OPERATING COMMITMENTS

The City of Medicine Hat is committed to purchase natural gas and electrical energy under existing purchase contracts. The commitment for 2006 is \$817 (Gas) and \$7,164 (Electric).

NOTES

FOR THE YEAR ENDED DECEMBER 31, 2005

(In Thousands of Dollars)

NOTE 24: CAPITAL COMMITMENTS

(A) 2005 CAPITAL BUDGET

Following guidelines set out by the Public Sector Accounting Board, the budget reported on the Consolidated Statement of Financial Activities and Consolidated Capital Fund is the 2005 approved Capital Budget. The actual expenditures reported include incomplete capital projects in the amount of \$30,486 carried forward from previous budget years, as well as costs related to the 2005 Budget.

(B) INCOMPLETE CAPITAL PROJECTS

As at December 31, 2005 a number of capital projects were in progress and will be completed in 2006 or subsequent years. The unexpended appropriation related to these projects is \$28,486. Projects included in this total are; Subdivision Development - \$17,773, Gas and Oil Facilities \$1,875, Gas Drilling Program \$2,124, Gas Gathering Program \$2,559, Municipal Building Retrofits \$1,360.

(C) 2006 CAPITAL IMPROVEMENT PLAN

In December 2005, City Council approved the 2006-2010 Utilities Capital Improvement Plan. Subsequent to December 31, 2005, City Council approved the 2006 - 2010 General Government Capital Improvement Plan. The total for all Projects is as follows:

2006	94,274
2007	87,775
2008	38,671
2009-2010 Projection	139,910
Total	<u>360,630</u>

Financing sources identified:

	2006	2007	2008
Government Grants	3,038	3,195	3,470
Current Revenues	13,986	12,360	5,298
Debentures			
Tax Supported	3,153	2,390	2,086
Utilities	20,449	17,879	16,648
Reserves	45,951	44,678	3,393
Direct Charges and Other	7,697	7,253	7,776
Total	<u>94,274</u>	<u>87,755</u>	<u>38,671</u>

NOTE 25: CONTINGENT LIABILITIES

Various claims have been made against the City as at December 31, 2005. If proven, it is possible that these claims may have a materially adverse effect on the financial position of the City. The City is disputing the claims and as the outcome is not determinable at this time, no amount has been accrued in the financial statements.

NOTES

FOR THE YEAR ENDED DECEMBER 31, 2005

(In Thousands of Dollars)

NOTE 26: FINANCIAL INSTRUMENTS

The City as part of its operations carries a number of financial instruments. It is management's opinion the City is not exposed to significant interest, currency or credit risk arising from these financial instruments, except as otherwise disclosed. Unless otherwise noted, the fair value of these financial instruments approximates their carrying values.

NOTE 27: COMPARATIVE FIGURES

Comparative figures have been restated, where necessary, to conform to the current year presentation.

FINANCIAL AND STATISTICAL SCHEDULES (Unaudited)
FOR THE YEARS ENDED DECEMBER 31, 2001 - 2005
(In Thousands of Dollars)

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

	2005	2004	2003	2002	2001
REVENUES BY SOURCE					
Taxes	\$ 28,487	\$ 25,620	\$ 22,537	\$ 21,605	\$ 19,364
Sale of Services					
General Government	6,029	5,632	5,220	5,177	4,674
Gas	161,387	129,817	129,178	96,188	112,707
Electric	55,856	58,399	53,687	47,778	74,475
Water	7,636	7,540	7,493	6,568	7,187
Sewer	6,954	6,296	5,642	5,561	5,261
Solid Waste	4,908	4,543	5,490	4,576	3,903
Land and Subdivision Development	17,165	21,948	16,203	15,050	11,183
Investment Income	6,875	5,496	4,655	5,338	5,292
Income from Subsidiary	1,712	180	(1,886)	(8,365)	256
Licences, Fines and Penalties	5,482	4,936	3,712	3,570	3,186
Insurance Recovery	157	107	118	100	102
Developer's Levies	3,187	1,932	1,548	1,991	1,381
Proceeds from Sale of Assets	1,227	1,862	4,851	17	33,715
Other	11,586	11,161	5,908	6,637	4,424
Government Grants	11,319	13,115	8,317	16,012	6,379
TOTAL REVENUES	329,967	298,584	272,673	227,803	293,489
EXPENDITURES BY FUNCTION					
General Government	104,681	106,469	84,032	82,010	62,082
Gas	116,464	92,489	97,032	148,569	105,174
Electric	34,285	30,472	51,746	43,220	46,304
Water	8,344	6,880	5,657	4,702	6,379
Sewer	7,282	14,849	8,338	9,547	7,739
Solid Waste	3,879	4,067	3,393	3,065	2,833
Land	3,948	5,229	4,229	8,555	2,759
TOTAL EXPENDITURES	278,883	260,455	254,427	299,668	233,270
NET REVENUES (EXPENDITURES) AND INCREASE (DECREASE) IN NET FINANCIAL ASSETS					
	51,084	38,129	18,246	(71,865)	60,219
Debt Issued	9,083	13,782	22,488	18,922	7,831
Debt Repayment	(12,536)	(11,827)	(10,732)	(10,708)	(37,014)
Contributed Surplus				1,381	
	(3,453)	1,955	11,756	9,595	(29,183)
CHANGE IN FUND BALANCE	\$ 47,631	\$ 40,084	\$ 30,002	\$ (62,270)	\$ 31,036

FINANCIAL AND STATISTICAL SCHEDULES (Unaudited)
FOR THE YEARS ENDED DECEMBER 31, 2001- 2005
(In Thousands of Dollars)

CONSOLIDATED EXPENDITURE BY OBJECT

	2005	2004	2003	2002	2001
Salaries, Wages and Benefits	\$ 69,906	\$ 64,902	\$ 59,318	\$ 56,687	\$ 52,711
Contracted and General Services	31,199	27,946	27,428	19,387	17,083
Materials, Goods and Utilities	35,214	33,631	32,306	27,615	39,176
Provisions for Allowances	23	232	195	404	282
Bank Charges and Short-Term Interest	74	44	98	927	106
Interest on Long-Term Debt	10,435	10,379	10,110	9,856	10,862
Physical Assets Acquired	99,475	95,484	96,512	165,143	94,503
Other Operating Expenditures	30,039	24,505	25,411	18,804	17,971
Grants and Other Transfers	578	603	221	386	331
Other Capital Expenditures	1,940	2,727	2,858	2,079	1,662
TOTAL EXPENDITURES	\$ 278,883	\$ 260,453	\$ 254,457	\$ 301,288	\$ 234,687

CONSOLIDATED SCHEDULE OF CAPITAL FINANCING AND EXPENDITURES

	2005	2004	2003	2002	2001
REVENUES					
Government Transfers	\$ 5,206	\$ 9,360	\$ 5,486	\$ 12,598	\$ 2,786
Developers Levies	3,187	1,932	981	1,994	1,381
Proceeds from Sale of Assets	55	1,862	4,851	17	33,715
Other	4,218	4,913	1,118	1,797	1,023
Reserves	47,063	52,733	37,259	123,628	51,379
Operations	21,113	29,762	21,737	16,480	(560)
Debt	9,083	13,782	22,488	18,922	7,831
TOTAL FINANCING	89,925	114,344	93,920	175,436	97,555
EXPENDITURES					
Engineering Structures	74,021	65,794	81,802	153,209	86,234
Buildings	17,970	24,691	9,376	4,867	2,587
Machinery and Equipment	2,122	1,663	1,888	2,188	1,797
Land	172	146	311	581	1,427
Mobile Equipment	4,984	3,189	2,899	4,300	2,344
Non - Asset Increasing	2,147	2,728	3,094	2,076	1,776
TOTAL EXPENDITURES	101,416	98,211	99,370	167,221	96,165
SURPLUS/(DEFICIT)	\$ (11,491)	\$ 16,133	\$ (5,450)	\$ 8,215	\$ 1,390

FINANCIAL AND STATISTICAL SCHEDULES (Unaudited)
FOR THE YEARS ENDED DECEMBER 31, 2001- 2005
(In Thousands of Dollars)

LONG-TERM DEBT

	2005	2004	2003	2002	2001
LONG-TERM DEBT					
Debt Supported by Taxes	\$ 28,324	\$ 27,388	\$ 25,205	\$ 21,591	\$ 20,736
Debt Supported by Utilities	126,427	130,815	131,044	122,575	115,213
TOTAL DEBT	\$ 154,751	\$ 158,203	\$ 156,249	\$ 144,166	\$ 135,949

DEBT PER CAPITA

(not in thousands of dollars)

	2005	2004	2003	2002	2001
Tax Supported	\$ 505	\$ 534	\$ 492	\$ 421	\$ 405
Utility Supported	2,256	2,553	2,557	2,392	2,248
TOTAL DEBT PER CAPITA	\$ 2,761	\$ 3,087	\$ 3,049	\$ 2,813	\$ 2,653

**LONG-TERM DEBT CHARGES AS
A % OF TOTAL EXPENDITURES**

	2005	2004	2003	2002	2001
Debt Charges	\$ 23,189	\$ 23,002	\$ 22,603	\$ 20,560	\$ 47,876
Total Operating Expenditures	177,466	163,734	156,449	134,067	138,522
PERCENTAGE	13.07%	14.05%	14.45%	15.34%	34.56%

LEGAL DEBT LIMIT

	2005	2004	2003	2002	2001
Total Debt Limit	\$ 659,156	\$ 546,319	\$ 537,272	\$ 432,524	\$ 581,282
Actual Debt	155,602	159,054	157,099	154,872	155,717
AMOUNT UNDER LIMIT	\$ 503,554	\$ 387,265	\$ 380,173	\$ 277,652	\$ 425,565
Percentage Used	23.61%	29.11%	29.24%	35.81%	26.79%

DEBT SERVICING LIMIT

	2005	2004	2003	2002	2001
Debt Servicing Limit	\$ 115,352	\$ 95,606	\$ 94,023	\$ 75,692	\$ 101,724
Actual Debt Servicing	23,694	23,002	22,603	30,968	39,961
AMOUNT UNDER LIMIT	\$ 91,658	\$ 72,604	\$ 71,420	\$ 44,724	\$ 61,763
Percentage Used	20.54%	24.06%	24.04%	40.91%	39.28%

* During 2001, \$20,444 in long-term debt was retired before maturity date.

FINANCIAL AND STATISTICAL SCHEDULES (Unaudited)
FOR THE YEARS ENDED DECEMBER 31, 2001- 2005
(In Thousands of Dollars)

SUMMARY OF OPERATING AND RESERVE FUND BALANCES

OPERATING FUNDS	2005	2004	2003	2002	2001
General	\$ 6,301	\$ 5,601	\$ 5,498	\$ 5,152	\$ 4,631
Gas	5,253	6,433	6,587	4,804	4,384
Electric	4,795	2,833	5,046	4,751	3,789
Water	(1,680)	(1,354)	(858)	(433)	329
Sewer	(1,794)	(1,760)	(958)	(91)	263
Solid Waste	836	1,227	1,446	649	497
Land and Subdivision Development	15,743	14,470	8,884	19,337	10,920
TOTAL OPERATING FUNDS	29,454	27,450	25,645	34,169	24,812
RESERVE FUNDS					
Arts and Heritage Centre		11,172	21,605	15,000	49
Employee Training	515	409	302	248	191
Victim Assistance	13	12	11	11	5
Infrastructure	8,575	6,390	4,497	3,278	2,761
Second Street Properties	84	84	181	267	267
Fleet Replacement	5,055	3,944	3,087	2,891	2,717
Gas Depletion	151,848	96,738	71,943	38,889	117,446
Natures Best Reserve	941				
Electric Facilities and Equipment	16,856	14,210	14,210	10,974	3,070
Equity in Subsidiary Company	(8,092)	(9,804)	(9,984)	(6,849)	
SUB-TOTAL RESERVES	175,795	123,155	105,852	64,709	126,506
Internal Loans Contra	(18,876)	(23,354)	(28,302)	(31,006)	(21,059)
TOTAL RESERVES	156,919	99,801	77,550	33,703	105,447
TOTAL RESERVES AND SURPLUS	\$ 186,373	\$ 127,251	\$ 103,195	\$ 67,872	\$ 130,259

**FINANCIAL AND STATISTICAL SCHEDULES (Unaudited)
FOR THE YEARS ENDED DECEMBER 31, 2001 - 2005**

TAXATION AND ASSESSMENT

MILL RATES

	2005	2004	2003	2002	2001
MUNICIPAL					
Single Family	5.147	5.102	4.908	5.164	5.508
Apartments	6.779	6.286	5.734	6.070	7.713
Farmland	14.599	11.834	10.209	10.133	9.779
Commercial and Industrial	14.066	13.625	12.765	11.932	11.881
EDUCATION					
Single Family	4.063	4.343	4.354	4.674	5.251
Apartments	4.063	4.343	4.354	4.674	5.251
Farmland	4.063	4.343	4.354	4.674	5.251
Commercial and Industrial	5.922	7.383	7.669	7.580	7.643
OTHER					
Single Family	0.093	0.060	0.066	0.066	0.067
Apartments	0.093	0.060	0.066	0.066	0.067
Farmland	0.093	0.060	0.066	0.066	0.067
Commercial and Industrial	0.093	0.060	0.066	0.066	0.067

**PROPERTY TAXES LEVIED
(In Thousands of Dollars)**

PROPERTY TAX LEVY	2005	2004	2003	2002	2001
Municipal	\$ 30,052	\$ 27,100	\$ 23,740	\$ 21,423	\$ 19,364
Education	18,251	18,159	16,981	16,315	15,727
Other	396	234	226	206	183
TOTAL REAL PROPERTY	48,699	45,493	40,947	37,944	35,274
Business Taxes (BRZ)	100	100	89	96	96
TOTAL TAXES LEVIED	\$ 48,799	\$ 45,593	\$ 41,036	\$ 38,040	\$ 35,370
Current Taxes Collected	\$ 48,380	\$ 44,952	\$ 40,524	\$ 37,526	\$ 34,952
% of Current Taxes Collected	99.14%	98.59%	98.75%	98.65%	98.82%
OTHER MAJOR TAXES LEVIES	2005	2004	2003	2002	2001
Linear Property Taxes	\$ 2,807	\$ 2,825	\$ 2,252	\$ 2,668	\$ 2,494
Government Grants in Lieu of Property Taxes	1,187	1,230	1,258	1,184	1,111
TOTAL MAJOR TAX LEVIES	\$ 3,994	\$ 4,055	\$ 3,510	\$ 3,852	\$ 3,605

ASSESSED VALUE FOR GENERAL MUNICIPAL PURPOSES

	2005	2004	2003	2002	2001
Residential	\$ 3,267,598,850	\$ 2,891,991,033	\$ 2,682,303,890	\$ 2,303,154,818	\$ 1,992,021,650
Multi-Family	154,684,483	151,539,751	150,436,471	128,151,634	94,251,120
Farmland	5,049,459	5,003,531	5,217,012	4,980,057	4,822,280
Commercial and Industrial	860,239,981	780,943,647	723,237,891	698,890,212	639,557,630
TOTAL TAXABLE ASSESSMENT	\$ 4,287,572,773	\$ 3,829,477,962	\$ 3,561,195,264	\$ 3,135,176,721	\$ 2,730,652,680

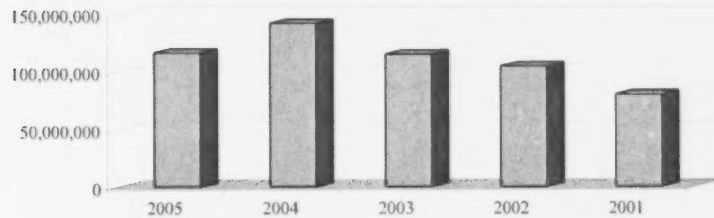
**FINANCIAL AND STATISTICAL SCHEDULES (Unaudited)
FOR THE YEARS ENDED DECEMBER 31, 2001-2005**

DEMOGRAPHICS AND OTHER INFORMATION

POPULATION



DOLLAR VALUE OF BUILDING PERMITS ISSUED



OTHER	2005	2004	2003	2002	2001
Area, Square Kilometres	12,027	12,027	12,027	12,027	12,027
Km of Wastewater Mains	379	371	361	349	356
Km of Water Mains	408	395	389	381	376
Km of Storm Drainage Mains	217	201	194	190	171

Financial Comparison 2005 - 1999 (Unaudited)

Consolidated Balance Sheet (In Thousands of Dollars)

Assets	2005	2004	2003	2002	2001	2000	1999
Cash and Investments	185,469	141,717	101,079	62,909	81,871	89,808	40,355
Investment In Subsidiary					47,360		
Advances to Subsidiary	18,978	20,448	21,270	31,009	11,515		
Accounts Receivable	39,449	33,192	26,630	31,748	21,536	35,059	19,188
Inventory and Supplies	8,422	9,275	8,739	8,889	8,296	10,097	9,533
Inventories for Resale	22,177	20,022	17,800	18,545	18,433	14,541	
Land Inventory							13,845
Other Assets	3,222	2,308	1,291	1,164	1,137	538	1,856
Prepaid Expenses	1,068	934	615	771	6,688	1,205	
Long Lived Asset - Retirement Obligation	19,403	19,828	13,760	5,875			
Capital Assets	904,538	867,318	820,226	774,640	655,623	629,889	652,048
	<u>1,202,726</u>	<u>1,115,042</u>	<u>1,011,410</u>	<u>935,550</u>	<u>852,459</u>	<u>781,137</u>	<u>736,825</u>
Liabilities	2005	2004	2003	2002	2001	2000	1999
Payables	12,998	17,908	11,563	16,786	10,008	12,077	10,873
Accrued Liabilities	33,294	29,108	28,501	25,266	15,508	19,179	14,310
Short-Term Debt				9,984	19,809		
Long-Term Debt	154,751	158,203	156,249	144,166	136,295	165,469	176,792
Other Long-Term Liabilities	44,553	39,285	29,604	19,093	15,910	13,657	10,588
	<u>245,596</u>	<u>244,504</u>	<u>225,917</u>	<u>215,295</u>	<u>197,530</u>	<u>210,382</u>	<u>212,563</u>
Loss In Subsidiary	8,086	9,798	9,978	8,092			
Equity							
Equity In Capital Assets	749,787	709,114	663,975	630,148	524,559	468,252	478,139
Surplus and Reserves	199,257	151,626	111,540	82,015	130,370	102,503	46,123
	<u>949,044</u>	<u>860,740</u>	<u>775,515</u>	<u>712,163</u>	<u>654,929</u>	<u>570,755</u>	<u>524,262</u>
	<u>1,202,726</u>	<u>1,115,042</u>	<u>1,011,410</u>	<u>935,550</u>	<u>852,459</u>	<u>781,137</u>	<u>736,825</u>

NOTES:

- Effective 2004, the City adopted the new Canadian Institute of Chartered Accountant standards and guidelines for Asset Retirement Obligation, the Full Cost Accounting Guideline and Accounting for Future Benefits. These policies were adopted retroactive to 2002 and 2003. Information for 2001, 2000 and 1999 does not reflect these changes.

- In 2005, the financial information for the Medicine Hat Public Library was excluded from the Financial Statement, as they are not owned or controlled by the City of Medicine Hat. This change was restated retroactively for 2004, 2003 and 2002. Information for 2001, 2000 and 1999 does not reflect these changes.

Financial Comparison 2005 - 1999 (Unaudited)

Operating Revenue and Expenditures (In Thousands of Dollars)

Revenue From:	2005	2004	2003	2002	2001	2000	1999
Taxes	49,061	45,594	41,270	38,040	35,370	38,088	35,650
Less - Requisitions	(20,574)	(19,973)	(18,733)	(17,650)	(16,006)	(18,831)	(18,516)
	28,487	25,621	22,537	20,390	19,364	19,257	17,134
Sale of Services							
General Government	6,029	5,632	5,220	5,177	4,674	4,194	3,576
Electric	55,856	58,399	53,687	47,778	74,475	93,036	47,646
Gas	161,387	129,817	129,178	96,188	112,707	101,268	66,573
Environmental Utilities	19,498	18,379	18,625	16,705	16,351	15,397	13,438
Land	17,165	22,081	16,203	15,050	11,183	5,748	8,280
Medicine Hat Public Library					87	94	111
Other Income							
Investment Income	6,875	5,496	4,654	5,338	5,292	3,690	2,581
Investment (Loss) in Subsidiary	1,712	180	(1,886)	(8,485)	256		
Licences, Fines and Penalties	5,482	4,804	3,713	3,570	3,186	2,742	2,421
Other	8,673	6,357	4,908	4,939	3,503	7,977	4,354
Senior Government Transfers	6,114	3,754	3,398	3,194	3,593	3,264	3,140
Surplus			8,517			1,991	8,706
	317,278	280,520	268,754	209,844	254,671	258,658	177,960
Spent On:	2005	2004	2003	2002	2001	2000	1999
General Government	67,471	62,737	57,289	54,182	50,058	45,977	37,385
Electric	30,089	27,051	29,458	22,807	24,734	21,553	18,798
Gas	51,467	55,135	51,691	39,566	49,501	52,159	39,886
Environmental Utilities	14,364	12,124	11,264	10,056	10,270	9,766	10,964
Land	14,075	5,197	5,355	3,926	2,758	951	1,827
Medicine Hat Public Library					1,201	1,180	1,120
Capital Purchase and Debt	33,649	41,589	32,469	27,208	36,454	51,573	39,438
Transfer To Reserves	104,181	74,881	81,228	44,106	73,208	75,499	28,542
Surplus	1,982	1,806		7,993	6,487		
	317,278	280,520	268,754	209,844	254,671	258,658	177,960

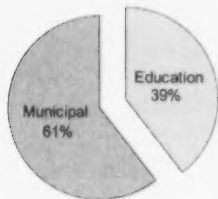
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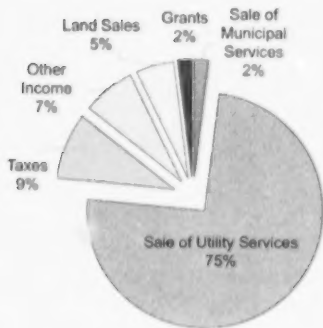
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Financial Synopsis 2005

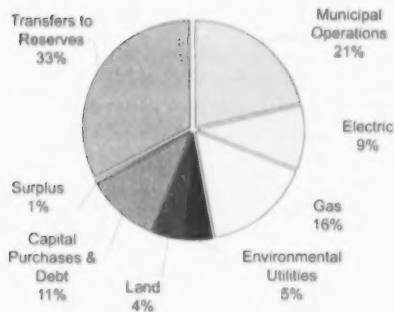
Where our tax dollars went in 2005
Education/Municipal
Property Tax



Where the Money Comes From
\$317.3 Million



Where the Money Goes
\$317.3 Million





For additional copies of the 2005 Annual Report
please call the Chief Administrative Officer

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Thank you to all the employees and residents who had their
photographs taken for this document.

